26 T.C. 836 (1956)

For the purpose of the excess profits tax "growth formula", "gross receipts" include all amounts received or accrued from sales, including amounts added to the sales price as reimbursement for excise taxes.

Summary

Lucky Lager Brewing Company sought to compute its excess profits tax credit using a growth formula based on increased gross receipts. The IRS contended that "gross receipts" included federal and state excise taxes on beer, reducing the percentage increase and disqualifying Lucky Lager from using the growth formula. The Tax Court agreed with the IRS, holding that the plain meaning of "gross receipts" included all amounts received from sales, regardless of whether the amounts represented the beer's base price or reimbursements for excise taxes. The court reasoned that the purpose of the growth formula was to measure growth in production volume, and that excise taxes, which remained constant per unit, did not distort this measurement. Therefore, the court ruled in favor of the Commissioner, denying Lucky Lager the use of the growth formula.

Facts

Lucky Lager Brewing Company (Petitioner) manufactured and sold beer during the base period years (1946-1949). Petitioner included both the base price of the beer and the excise taxes paid on the beer in its reported gross sales. The Petitioner sought to compute its excess profits tax credit using the growth formula, which required an increase in gross receipts. Petitioner argued that "gross receipts" should exclude the excise taxes, arguing these were effectively passed on to the consumer. The Commissioner of Internal Revenue (Respondent) determined that the excise taxes were part of the gross receipts. The excise tax rates remained constant during the base period.

Procedural History

The Commissioner determined a deficiency in Lucky Lager's income and excess profits tax for 1950. Lucky Lager challenged this determination in the United States Tax Court. The Tax Court reviewed the case and, after considering stipulated facts, found for the Commissioner, affirming the inclusion of excise taxes in gross receipts.

Issue(s)

Whether, for the purposes of calculating the excess profits tax credit under the growth formula, "gross receipts" includes the excise taxes paid on the beer sold by the company.

Holding

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Yes, because the court found that the term “gross receipts” includes all amounts received or accrued from the sale of beer, including amounts added to the sales price as reimbursement for beer excise taxes.

Court’s Reasoning

The court focused on the definition of “gross receipts” as defined in the relevant statute and its purpose within the excess profits tax. The court looked at the 1950 Excess Profits Tax Act’s attempt to determine growth by “objective tests,” one of which included the size of the corporation’s “gross receipts”. The court emphasized that the growth formula aimed to measure an increase in the physical volume of production. The court found that the excise taxes, a constant cost per unit, did not distort the measurement of the company’s growth in production volume. The court reasoned that, although the Petitioner passed the excise taxes onto consumers, the funds were still part of the total amounts received by the Petitioner. The Court stated, “bearing in mind that it is an increase in physical volume of production with which the lawmakers were concerned, as petitioner apparently recognizes in its excellent brief, the question is what effect should be given to unit taxes, the rate of which did not increase during the base period.”

Practical Implications

This case clarifies how excise taxes are treated in calculating gross receipts for excess profits tax purposes. Businesses should carefully consider what constitutes gross receipts, ensuring they include all revenue derived from sales. This case reinforces the importance of adhering to the plain meaning of statutory terms when calculating tax liabilities. This case illustrates that even when a tax is passed on to the consumer, it is still considered part of the company’s gross receipts.

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