29 T.C. 175 (1957)

Under the Renegotiation Act of 1942, contracts with the War Department are subject to renegotiation, even if the items are intended for resale by nonappropriated fund activities, provided the War Department is liable under the contract.

Summary

This case involves the determination of excessive profits from war contracts subject to renegotiation under the Renegotiation Act of 1942. The United States Tax Court addressed the issue of whether contracts between Park Sherman Co. and the War Department for the supply of lighters were subject to renegotiation. The court held that contracts directly with the War Department were renegotiable, even if the items were intended for resale to post exchanges and paid for through government appropriations, with reimbursement expected from nonappropriated funds. The Court further clarified that contracts assigned to the Army Exchange Service were not subject to renegotiation due to specific language excluding them. The Court also addressed the application of the $500,000 floor for renegotiable sales, determining that it applied for the full fiscal year, not a portion thereof, and that the Tax Court could review the determination by the War Contracts Price Adjustment Board regarding excessive profits.

Facts

Park Sherman Co. (and its subsidiary Park Bloomington, Inc.) manufactured cigarette lighters for the War and Navy Departments during World War II. The Quartermaster General procured lighters for all branches of the armed forces, entering into written contracts with Park Sherman Co. and others. Although the lighters were intended for resale through post exchanges, the contracts were with the War Department, and the War Department was liable for the purchase. Some contracts were formally assigned to the Army Exchange Service. Payments were made to Park Sherman through Treasury warrants and direct billing to various governmental agencies. The War Contracts Price Adjustment Board determined that Park Sherman Co. and Park Bloomington, Inc. had excessive profits, which led to the present litigation.

Procedural History

The War Contracts Price Adjustment Board determined that the petitioners had excessive profits from certain contracts subject to renegotiation. The United States was substituted for the Board as the respondent. The cases were consolidated in the United States Tax Court to determine whether the sales were subject to renegotiation and whether the profits were excessive.

Issue(s)

© 2025 SCOTUSreports.com. All rights reserved.

1. Whether sales pursuant to contracts between the petitioners and the War Department, where the items were intended for resale and paid for by government funds with reimbursement expected from nonappropriated funds, are subject to renegotiation under the Renegotiation Act of 1942.

2. Whether sales pursuant to contracts between the petitioners and the War Department, which were assigned to the Army Exchange Service, are subject to renegotiation.

3. If the sales are subject to renegotiation, whether the full $500,000 floor under the Renegotiation Act of 1942 is applicable for a fiscal year ending after the termination date of the Act.

Holding

1. Yes, because the contracts were directly with the War Department, which was liable under the contracts, irrespective of the ultimate resale of the items and method of payment.

2. No, because the contracts assigned to the Army Exchange Service contained specific language stating that they were not subject to renegotiation and that appropriated funds were not used.

3. Yes, the full $500,000 floor is applicable.

Court’s Reasoning

The court based its decision on the interpretation of the Renegotiation Act of 1942. The Act states the requirements for the renegotiation of contracts, and the court looked at the requirements in order to determine the applicability of the Act to these cases. The court found that the Act applied to contracts with the War Department and its assigns. The Court emphasized that the contracts at issue were with the War Department and that the War Department was liable under those contracts, making them subject to renegotiation, even if the Department intended to resell the items or to be reimbursed. The court distinguished this case from *W. Tip Davis Co. v. Patterson*, where the government was not obligated. The court also considered whether a contract between the Quartermaster and an outside entity was, in fact, a contract under the meaning of the Act. The Court held, that the contract was, in fact, a binding agreement. Furthermore, the court determined that the contracts assigned to the Army Exchange Service were not subject to renegotiation, based on the specific language in those contracts. It held that the $500,000 floor under the Renegotiation Act was fully applicable to the petitioner’s fiscal year. The Court also determined that the excessive profits determination for the fiscal year ending June 30, 1945, was appropriate.

The court cited the following, “the statute is made applicable to all contracts with the War or Navy Departments subject to certain exceptions… There can be no doubt

© 2025 SCOTUSreports.com. All rights reserved.

that the contracts were entered with the War Department and that said Department was liable under those contracts."

Practical Implications

This case is significant for understanding how to apply the Renegotiation Act of 1942 in similar situations. The case highlights the importance of the direct contractual relationship with the government and the liability that the government assumes in determining whether a contract is subject to renegotiation. The court focused on the specific language within the contract to determine that the Government was liable. This case helps to show that even if the items are ultimately resold and the government may be reimbursed from non-appropriated funds, the contract remains subject to renegotiation if it is directly with the War Department. The case also demonstrates the importance of contract language in determining exceptions, such as the contracts assigned to the Army Exchange Service. Subsequent cases involving government contracts will likely examine the degree to which the government has a direct liability under the contracts. This case also informs legal practice in this area by setting precedent that will inform how contracts are construed. Any business or societal implications of this case relate to war-related contracts.

© 2025 SCOTUSreports.com. All rights reserved.