29 T.C. 330 (1957)

To qualify for excess profits tax relief under I.R.C. § 722(b)(4), a taxpayer must demonstrate a change in the character of its business, not merely technological growth or increased capacity without a corresponding impact on base period income.

Summary

Lanzit Corrugated Box Co. sought relief from excess profits taxes under I.R.C. § 722(b)(4), arguing that an increase in its production capacity constituted a change in the character of its business during the base period. The Tax Court held against Lanzit, finding that the company's expansion, including the installation of a larger corrugating machine, was a technological advancement rather than a fundamental change in the nature of its business. The court emphasized that Lanzit failed to prove that the increased capacity would have led to increased base period net income, particularly since it did not demonstrate an inability to meet customer demand or capture additional market share. Therefore, the court denied Lanzit's claim for reconstructed base period net income.

Facts

Lanzit Corrugated Box Co. manufactured corrugated paper boxes. During the base period (1936-1939), the company improved its production capacity. This included adding a new steam boiler in July 1938 which improved the efficiency of its existing 63-inch corrugator. Later, in April 1940, it installed an 85-inch corrugator. Lanzit argued that these improvements, especially the increase in capacity, constituted a "change in character" under I.R.C. § 722(b)(4), entitling it to recalculate its base period net income to reduce its excess profits tax liability for the years 1941-1945. The Commissioner denied the application.

Procedural History

Lanzit filed an application for relief with the Commissioner of Internal Revenue, which was denied. Lanzit then filed suit in the United States Tax Court, seeking a redetermination of its excess profits tax liability for the years 1941-1945, based on its claim under I.R.C. § 722(b)(4). The Tax Court considered the case and ultimately ruled in favor of the Commissioner.

Issue(s)

1. Whether the increase in Lanzit's production capacity, including the installation of the 85-inch corrugator, constituted a

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