30 T.C. 1121 (1958)

Under the 1939 Internal Revenue Code, even if a company qualifies for relief from excess profits tax based on certain hardships or business cycles, relief is not granted if the resulting constructive average base period net income does not exceed the excess profits credit calculated using invested capital.

Summary

The Havens Structural Steel Co. sought relief from excess profits taxes under Section 722 of the 1939 Internal Revenue Code, citing hardship factors such as drought, insect infestation, and a unique profit cycle. The Tax Court, assuming arguendo that the company qualified under these factors, denied relief because the company's potential constructive average base period net income (CABPNI) was less than the excess profits credit the company was already receiving based on its invested capital. The court emphasized that relief under Section 722 was contingent upon demonstrating a CABPNI that would result in a lower tax liability than the tax calculated using the invested capital credit.

Facts

Havens Structural Steel Co., a Missouri corporation, fabricated and sold steel products, erected structural steel, and warehoused steel. The company's trade area included Missouri, Kansas, Illinois, Nebraska, and Oklahoma. The company's base period (1936-1939) coincided with a severe drought and insect infestation in the Great Plains area, affecting agricultural income. Although the company's sales and profits were affected by the general economic downturn, the company did not experience a decline in business as severe as other businesses.

Procedural History

Havens filed applications for relief under Section 722 of the 1939 Internal Revenue Code for the years 1941, 1942, 1944, and 1945. The Commissioner of Internal Revenue denied the applications. The company then brought the case to the United States Tax Court.

Issue(s)

Whether Havens Structural Steel Co. was entitled to relief under Section 722 of the 1939 Code due to the impact of drought and insect infestation, or a differing profit cycle, given its excess profits credit based on invested capital.

Holding

No, because, even assuming the existence of qualifying factors for relief under Section 722, the company's invested capital credit resulted in a lower excess profits tax than any potential relief calculation based on a constructive average base period

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net income.

Court’s Reasoning

The court focused on the relationship between Section 722’s relief provisions and the invested capital credit under Section 714 of the 1939 Code. Even assuming the company met the hardship requirements of Section 722(b), the court found no evidence that a reconstructed base period net income would exceed the invested capital credit. The court cited the company’s historical losses and low profits during the base period, and that the credit based on invested capital yielded a lower excess profits tax. The Court noted, “no realistic reconstruction of base period income would result in a constructive average base period net income even approaching the invested capital credit allowed petitioner under section 714…” Therefore, the Court held that the company was not entitled to the requested relief.

Practical Implications

This case highlights the primacy of the overall tax liability calculation when seeking relief under Section 722 of the 1939 Code (and similar provisions in later tax codes). The focus is on the *net* benefit to the taxpayer. A company must demonstrate not only qualifying hardship factors but also that the resulting adjusted tax liability is less than its liability calculated using the invested capital credit, which is the default. This case serves as a precedent for future cases by emphasizing that relief is not granted if the invested capital credit results in a lower tax liability. Expert testimony is not dispositive, and the court will give more weight to the financial history of the company when considering relief.

Meta Description

This case clarifies that excess profits tax relief is granted only when the resulting tax liability is lower than the tax calculated using the invested capital credit, underscoring the importance of financial outcomes.

Tags

Havens Structural Steel, Tax Court, 1958, Excess Profits Tax, Invested Capital Credit, Drought, Section 722

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