S. S. Silberblatt, Inc. v. Renegotiation Board, 51 T. C. 907 (1969)

The Renegotiation Act applies prospectively to Capehart housing contracts without violating the Fifth Amendment, as contractors agree to renegotiation at the time of contract execution.

Summary

S. S. Silberblatt, Inc. , and its related entity, the Sterling Company, contested the application of the Renegotiation Act of 1951 to their Capehart housing contract with the Department of the Air Force. The Tax Court held that the contract was subject to the Act, as it was in effect at the time of contract execution in 1957, and its prospective application did not violate the Fifth Amendment's due process clause. The court emphasized the contractor's agreement to potential profit renegotiation as part of the contract terms, thus upholding the Act's application to Capehart housing contracts.

Facts

In 1957, S. S. Silberblatt, Inc. entered into a contract with the U. S. Department of the Air Force for constructing 1,685 housing units at Plattsburg Air Force Base under the Capehart Housing Act. The contract was financed through government-guaranteed loans, with the government ultimately responsible for repaying the loans. During the fiscal year ending January 31, 1960, Silberblatt and its related entity, the Sterling Company, realized profits from this contract, which were later deemed excessive by the Renegotiation Board. The contract included a clause subjecting it to the Renegotiation Act of 1951, which was in effect at the time of contract execution.

Procedural History

The Renegotiation Board determined that Silberblatt and Sterling realized excessive profits from their Capehart housing contract and issued a unilateral order for $1,900,000. The contractors petitioned the U. S. Tax Court, challenging the applicability of the Renegotiation Act to their contract and arguing its unconstitutionality under the Fifth Amendment. The Tax Court upheld the Board's determination, ruling that the contract was subject to the Act and its application was constitutional.

Issue(s)

1. Whether the Capehart housing contract was subject to the Renegotiation Act of 1951.
2. Whether the prospective application of the Renegotiation Act to Capehart housing contracts violated the Fifth Amendment's due process clause.

Holding

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1. Yes, because the Renegotiation Act was in full force and effect at the time the contract was executed in 1957, and the contract explicitly included a renegotiation clause as required by the Act.
2. No, because the prospective application of the Act to Capehart housing contracts does not violate the Fifth Amendment, as the contractor agreed to potential profit renegotiation at the time of contract execution.

Court's Reasoning

The court found that the Renegotiation Act applied to all contracts with specified departments, including the Department of the Air Force, after its enactment in 1951. The Capehart housing contract was explicitly subject to the Act due to its inclusion of a renegotiation clause, as required by the Act. The court rejected the argument that the Act's application to Capehart contracts was unconstitutional under the Fifth Amendment, distinguishing this case from others involving retroactive application. The court noted that the contractor agreed to the renegotiation clause at the time of contract execution, thus consenting to potential profit renegotiation. The court also upheld the classification of Capehart contracts as subject to renegotiation, finding it a reasonable legislative distinction based on the government's ultimate financial responsibility for the contract.

Practical Implications

This decision clarifies that the Renegotiation Act applies prospectively to Capehart housing contracts, as contractors agree to potential profit renegotiation at the time of contract execution. Legal practitioners should ensure that contracts with government agencies include required renegotiation clauses and understand the implications of such clauses. The ruling may affect how businesses approach government contracts, particularly in areas where government financing is involved, as it underscores the government's right to renegotiate excessive profits. Subsequent cases have followed this ruling, affirming the constitutionality of the Renegotiation Act's prospective application to similar contracts.

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