Martin Marietta Corp. v. Renegotiation Board, 47 T.C. 162 (1966)

In renegotiation cases, the Tax Court's review is de novo, meaning it independently determines excessive profits without regard to the Renegotiation Board's proceedings or findings, and the court's jurisdiction is limited to determining excessive profits, not tax credits.

Summary

Martin Marietta Corp. petitioned the Tax Court to redetermine excessive profits for 1965 as determined by the Renegotiation Board. The company argued that the Board acted arbitrarily and erred in calculating tax credits. The Tax Court granted the Renegotiation Board's motion to strike portions of the petition, holding that its review in renegotiation cases is de novo and not a review of the Board's administrative process. The court clarified that it determines excessive profits independently, without considering the Board's actions, and lacks jurisdiction to resolve disputes over tax credits in renegotiation proceedings. The burden of proof rests on the contractor to show that the profits are not excessive.

Facts

The Renegotiation Board determined that Martin Marietta Corp. realized excessive profits of $7,500,000 in 1965. Martin Marietta petitioned the Tax Court, alleging that the Board acted arbitrarily, capriciously, and erroneously in its determination. The company also claimed the Board erred in adjusting its excessive profits determination by a credit for state taxes. The Renegotiation Board moved to strike these allegations from the petition, arguing the Tax Court lacked jurisdiction to review the Board's proceedings or determine tax credit issues.

Procedural History

The Renegotiation Board made a determination of excessive profits against Martin Marietta Corp. Martin Marietta Corp. petitioned the Tax Court to redetermine excessive profits. The Renegotiation Board filed a motion to strike certain subparagraphs of the petition. The Tax Court heard oral arguments and considered written briefs before granting the Renegotiation Board's motion.

Issue(s)

1. Whether the Tax Court, in a renegotiation case, can review the administrative proceedings of the Renegotiation Board to determine if the Board acted arbitrarily, capriciously, or erroneously.
2. Whether the Tax Court has jurisdiction to determine disputes regarding tax credits in renegotiation cases.

Holding

1. No, because the Tax Court's proceeding is de novo and not a review of the Renegotiation Board's determination. The manner in which the Board reached its determination is irrelevant in the Tax Court.
2. No, because the Tax Court's jurisdiction is limited to redetermining the amount of excessive profits, and it does not extend to resolving disputes over tax credits, which are handled administratively after the court's determination of excessive profits.

Court's Reasoning

The court reasoned that 50 U.S.C. App. section 1218 explicitly states that Tax Court proceedings are de novo and not a review of the Board's determination. The statute grants the Tax Court the same powers and duties as in tax deficiency cases, but only insofar as applicable. The court emphasized, "A short answer to petitioner's entire argument is that the shifting burden-of-proof rule in a tax case is grounded on what the Commissioner did and it is definitely not applicable in a renegotiation case where what the Board did is of no interest." The court distinguished tax deficiency cases, where the Commissioner's determination is presumptively correct, from renegotiation cases, where the Board's determination is based on discretionary judgment without a presumption of correctness in the de novo Tax Court proceeding. The court stated, "Reduced to its essentials, the Renegotiation Act imposes upon the Board the responsibility of determining the reasonableness of a contractor's profits by the exercise of discretion, will, or judgment to which no presumption of correctness attaches when the contractor seeks a de novo hearing in this Court." Regarding tax credits, the court held that its jurisdiction is limited to determining the amount of excessive profits. Citing *Rosner v. W. C. P. A. B.*, 17 T.C. 445, 464 (1951), the court reiterated that tax credits are allowed by the Secretary after the Tax Court's order, not determined by the Tax Court itself.

Practical Implications

This case clarifies the scope of Tax Court jurisdiction in renegotiation cases, emphasizing the de novo nature of the proceedings. Attorneys representing contractors in renegotiation disputes must focus on presenting evidence to the Tax Court to independently prove that profits are not excessive, rather than challenging the Renegotiation Board's procedures or findings. The case also establishes that tax credit disputes are outside the Tax Court's purview in renegotiation matters, requiring contractors to pursue administrative remedies for such issues. Later cases have consistently affirmed the de novo standard in renegotiation proceedings and the Tax Court's limited jurisdiction, reinforcing the practical approach outlined in *Martin Marietta* for litigating these cases.

