DuPont Motors Corp. v. Commissioner, 208 F.2d 740 (3d Cir. 1953)

Property used in a taxpayer's trade or business, even if of a kind normally sold in that business, qualifies for capital gains treatment if held primarily for use rather than for sale to customers in the ordinary course of business.

Summary

DuPont Motors Corp., an automobile dealer, sought capital gains treatment on the sale of company cars. The IRS argued the cars were inventory or held for sale. The Tax Court sided with DuPont, holding that the cars were primarily used in the business (for demonstrations and employee use) and therefore qualified for capital gains treatment under Section 117(j) of the Internal Revenue Code. The Third Circuit affirmed, emphasizing that the *purpose* for which the property is held, not its nature, is determinative. This case clarifies the distinction between assets held for sale and assets used in a business, even when those assets are the same type of property.

Facts

DuPont Motors Corp. was a Chevrolet dealership. It purchased seventeen Chevrolet cars. Sixteen of these were new, financed through GMAC. The cars were initially entered in the books under "New Cars Available for Sale" (Account No. 231), but were immediately transferred to "Company Cars" (Account No. 230) before postings to the general ledger. DuPont paid cash for the cars, insured them, and obtained license tags. The cars were then used for demonstration purposes, to provide transportation to employees, and other company-related activities, accumulating between 8,000 and 12,000 miles each before being sold. The cars were sold after they ceased to be current models.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against DuPont Motors Corp., arguing that the proceeds from the sale of the cars should be taxed as ordinary income rather than capital gains. DuPont appealed to the Tax Court, which ruled in favor of DuPont. The Commissioner then appealed to the Third Circuit Court of Appeals.

Issue(s)

1. Whether the seventeen Chevrolet cars were property used in DuPont's trade or business subject to depreciation under Section 23(l) and capital gains treatment under Section 117(j) of the Internal Revenue Code, or
2. Whether the cars were (a) property includible in inventory or (b) property held primarily for sale to customers in the ordinary course of DuPont's business.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, the seventeen Chevrolet cars were property used in DuPont's trade or business and were entitled to capital gains treatment because the evidence showed that the cars were held primarily for use in the business and not primarily for sale to customers.

Court's Reasoning

The court emphasized that the determining factor is the *purpose* for which the property is held, not the nature of the property itself. Citing precedent (Carl Marks & Co., United States v. Bennett, Nelson A. Farry, A. Benetti Novelty Co.), the court noted that even assets normally sold in a business can qualify for capital gains treatment if they are primarily used in the business. While the cars were initially recorded as available for sale, they were quickly reclassified and used extensively for company purposes. The court gave weight to the taxpayer's business judgment in deciding to sell the cars after a certain amount of usage, finding that renovation and operating costs made further use less profitable. The court stated, "[W]e conclude that the cars here in issue were held primarily for use in the petitioner's trade or business and, hence, are entitled to capital gains treatment under the provisions of section 117 (j) of the Code and depreciation under section 23 (1)." The court declined to substitute its judgment for the taxpayer's regarding when to sell the vehicles, deferring to the business acumen of the petitioner's managers.

Practical Implications

This case provides a clear example of how assets normally held for sale can be treated as capital assets if used in a business. It highlights the importance of documenting the *purpose* for which assets are acquired and used. Businesses should maintain records showing how assets are used in their operations to support a claim for capital gains treatment upon disposal. This case is often cited in disputes involving the characterization of assets, particularly when a business disposes of items that are both used in the business and normally sold to customers. It reinforces the principle that tax treatment follows the *primary* purpose of holding an asset, not merely its inherent nature.

© 2025 SCOTUSreports.com. All rights reserved.