Lacey L. Briar, 4 T.C. 181 (1944)

Natural timber growth does not qualify as "development of tangible property" by the taxpayer under Section 721(a)(2)(C) of the Internal Revenue Code to determine abnormal income for excess profits tax purposes.

Summary

The case involved a timber company, Lacey L. Briar, seeking to attribute a portion of its income to the natural growth of timber between the dates of acquisition and harvest, thereby reducing its excess profits tax liability under Section 721 of the Internal Revenue Code. The Tax Court ruled against the company, holding that such natural growth did not constitute "development" under the statute. The court found that the company's income from timber growth was not abnormal in nature, and that the company failed to provide sufficient evidence to quantify its income related to timber growth over the four previous taxable years. This case emphasizes the distinction between a taxpayer's actions and the natural processes of the land when determining eligibility for tax benefits related to property development.

Facts

Lacey L. Briar, a timber company, acquired timber or timber rights over several years. It harvested timber in 1941 and 1942. The company claimed that a portion of its income in those years was attributable to the natural growth of the timber during the intervals between acquisition and harvest, and thus eligible for tax treatment under Section 721. The company's calculation of growth relied on estimates of the timber volume at the time of acquisition and the actual cut. The Commissioner of Internal Revenue denied the company's claims.

Procedural History

Lacey L. Briar filed a petition with the Tax Court challenging the Commissioner's denial of its claimed tax benefits related to timber growth. The Tax Court reviewed the case and ultimately sided with the Commissioner, upholding the denial of the claims and entered decision for the respondent.

Issue(s)

1. Whether the natural growth of timber constitutes the "development" of tangible property by the taxpayer under Section 721(a)(2)(C) of the Internal Revenue Code.

2. Whether the company had established the amount of abnormal income, if any, resulting from timber growth in the taxable years, and whether this income met the requirements of section 721(a)(1).

Holding

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1. No, natural growth of timber does not constitute “development” under section 721(a)(2)(C).

2. No, the company failed to demonstrate the existence or amount of abnormal income to be entitled to relief under section 721.

Court’s Reasoning

The court first addressed the statutory interpretation of “development,” relying on the regulation that “the ‘development’ relied upon must be that of the taxpayer.” The court reasoned that the natural growth of timber does not involve the

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