Schuyler Grain Co. v. Commissioner, 50 T. C. 265 (1968)

Grain storage facilities can qualify for the investment tax credit if used in connection with manufacturing, production, or extraction activities.

Summary

Schuyler Grain Company constructed five concrete grain storage bins and sought to claim an investment tax credit under Section 38 of the Internal Revenue Code. The Commissioner denied the credit, arguing the bins were not used in connection with the specified activities. The Tax Court held that the bins were used in connection with the production and manufacturing of grain products, as the company engaged in drying, blending, and feed production. The court's decision emphasized a broad interpretation of 'production' and 'manufacturing,' aligning with the legislative intent to stimulate economic growth.

Facts

Schuyler Grain Company, Inc. , a diverse grain business, constructed five concrete grain storage bins in 1964 at a cost of $43,321. 03. The company's operations included harvesting, storage, aeration, drying, blending, manufacturing, and shipment of grains like corn, wheat, oats, and soybeans. The bins were equipped with aeration systems to reduce moisture content in stored corn, which was necessary for subsequent drying and processing into livestock feed or for shipment to grain terminals on the Illinois River. In the year in question, the company reported gross sales of $1,225,951. 03, with approximately 8% derived from the sale of processed livestock feed.

Procedural History

Schuyler Grain Company filed a corporate income tax return for the fiscal year ending August 31, 1964, claiming an investment tax credit of $3,175. 01, of which $2,319. 10 was attributable to the newly constructed bins. The Commissioner of Internal Revenue disallowed this portion of the credit, asserting that the bins did not constitute Section 38 property. Schuyler Grain Company petitioned the United States Tax Court for a review of the Commissioner's determination.

Issue(s)

1. Whether the five grain storage bins constructed by Schuyler Grain Company were "used in connection with" any of the activities specified in Section 48(a)(1)(B)(i) of the Internal Revenue Code of 1954, thereby qualifying for the investment tax credit under Section 38?

Holding

1. Yes, because the court found that the storage facilities were used in connection

© 2025 SCOTUSreports.com. All rights reserved.

with the production and manufacturing of grain products, including drying, blending, and feed production, which activities fell within the broad interpretation of Section 48.

Court's Reasoning

The court applied the rules set forth in Section 48 of the Internal Revenue Code, which defines 'Section 38 property' as tangible property other than a building, used as an integral part of or in connection with manufacturing, production, extraction, or furnishing transportation. The court rejected the Commissioner's arguments that the bins were not used in connection with the specified activities, citing the broad definition of 'production' and 'manufacturing' in the regulations. The court emphasized the legislative intent behind the investment tax credit to stimulate economic growth by increasing the profitability of productive investment. It found that Schuyler Grain's activities of drying grain to prevent spoilage and processing it into livestock feed qualified as manufacturing and production. The court also noted the necessity of the bins in accommodating the shortened corn harvesting season, further supporting their use in connection with the specified activities. No dissenting or concurring opinions were mentioned.

Practical Implications

This decision broadens the scope of activities that can qualify grain storage facilities for the investment tax credit, emphasizing a liberal interpretation of 'used in connection with' manufacturing, production, or extraction. It impacts how similar cases should be analyzed by allowing businesses to claim tax credits for storage facilities integral to their processing operations. Legal practitioners should consider the full range of a client's activities when assessing eligibility for tax incentives. Businesses involved in agricultural processing may benefit from tax savings, potentially leading to increased investment in storage and processing infrastructure. Subsequent cases, such as those involving other agricultural products, may reference Schuyler Grain Co. to argue for a broad interpretation of the tax code provisions.

© 2025 SCOTUSreports.com. All rights reserved.