Mt. Mansfield Co. v. Commissioner, 50 T. C. 798 (1968)

Ski slopes and trails do not qualify as 'section 38 property' for investment tax credit purposes if they are not used by a business primarily engaged in furnishing transportation services.

Summary

In Mt. Mansfield Co. v. Commissioner, the U. S. Tax Court ruled that the ski slopes and trails operated by the petitioner, a ski resort operator, did not qualify for the 7% investment tax credit under section 38 of the Internal Revenue Code. The court held that the slopes and trails were not 'used as an integral part of furnishing transportation' by a business engaged in the transportation industry, as required by the statute and regulations. This decision underscores the necessity for property to be used in a qualifying business activity to be eligible for the investment credit, even if the property contributes to the economy and aligns with the broader goals of the credit.

Facts

Mt. Mansfield Company, Inc. , operated skiing facilities in Stowe, Vermont, including lifts, trails, and slopes. The company made capital investments in slopes and trails, claiming a 7% investment credit under section 38 of the Internal Revenue Code. The Commissioner of Internal Revenue disallowed these credits, arguing that the slopes and trails did not qualify as 'section 38 property. ' The company's operations significantly benefited the local economy, attracting many visitors and supporting numerous jobs.

Procedural History

The case originated with the Commissioner's determination of tax deficiencies for the years ending October 31, 1962, and October 31, 1963. Mt. Mansfield Co. filed a petition with the U. S. Tax Court to contest the disallowance of the investment credit. The Tax Court heard the case and issued its decision on August 29, 1968, affirming the Commissioner's position and denying the investment credit for the slopes and trails.

Issue(s)

1. Whether the ski slopes and trails operated by Mt. Mansfield Co. qualify as 'section 38 property' under section 48(a)(1)(B)(i) of the Internal Revenue Code, which requires the property to be used as an integral part of furnishing transportation services by a person engaged in the transportation business.

Holding

1. No, because the ski slopes and trails were not used as an integral part of

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furnishing transportation services by a business engaged in the transportation industry, as required by the statute and regulations.

Court’s Reasoning

The court’s decision was based on the statutory and regulatory requirements for property to qualify as ‘section 38 property. ‘ Section 48(a)(1)(B)(i) specifies that the property must be used as an integral part of furnishing transportation services by a person engaged in the transportation business. The court found that Mt. Mansfield Co. was not in the transportation business but in the business of operating skiing facilities. The court emphasized that incidental transportation services provided by the company did not constitute a separate trade or business. The court also relied on the technical explanations in the committee reports and the examples provided in the regulations, which suggested a narrow interpretation of what constitutes a transportation business. The court concluded that ski slopes and trails do not fit within the ‘commonly accepted meaning’ of transportation businesses, as illustrated by the examples of railroads and airlines.

Practical Implications

This decision clarifies that the investment tax credit under section 38 is not available for property used in businesses that do not primarily engage in the activities specified in the statute, such as transportation. It underscores the importance of the primary business activity in determining eligibility for the credit. For legal practitioners, this case highlights the need to carefully analyze the nature of a client’s business when considering the applicability of the investment credit. Businesses in recreational or service industries that provide incidental transportation services must be aware that such services do not qualify their property for the credit. Subsequent cases and regulations have continued to adhere to this narrow interpretation, affecting how companies structure their investments and claim tax credits.

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