Moradian v. Commissioner, 53 T. C. 207 (1969)

A partner may claim an investment credit for used property acquired from a partnership if the property is not used by the same or related persons before and after acquisition.

Summary

Georgia Moradian purchased an undivided one-half interest in grapevines from a dissolved partnership where her husband Edward was a partner. The issue was whether Georgia could claim an investment credit for this used property under section 38 of the Internal Revenue Code. The Tax Court held that she was entitled to the credit because the property was used by different entities before and after her purchase, and the partnerships were not related under the statutory definition. The court invalidated a regulation attributing partnership use to individual partners, emphasizing the need for a change in both ownership and use to qualify for the credit.

Facts

In 1944, Edward Moradian and Nick Hagopian formed a farming partnership to grow grapes on land they owned as tenants in common. In May 1964, the partnership dissolved, and on June 5, 1964, Hagopian sold his undivided one-half interest in the land and grapevines to Georgia Moradian. Edward and Georgia then formed a new partnership, Gem Farms, to continue the grape farming operation. Georgia claimed an investment credit for her purchase of the grapevines on their 1964 joint federal income tax return, which the Commissioner disallowed.

Procedural History

The Moradians petitioned the Tax Court to contest the deficiency and claim an overpayment. The court heard the case and ruled in favor of the Moradians, allowing Georgia to claim the investment credit for the used property.

Issue(s)

1. Whether Georgia Moradian is entitled to an investment credit under section 38 for her purchase of used property from the Hagopian-Moradian partnership.

Holding

1. Yes, because the property was used by different entities before and after Georgia's acquisition, and the partnerships were not related under the statutory definition. The court invalidated the regulation attributing partnership use to individual partners.

Court's Reasoning

The court focused on the interpretation of section 48(c)(1), which defines “used section 38 property” and restricts the investment credit if the property is used by the same or related persons before and after acquisition. The court found that the Hagopian-Moradian partnership and Gem Farms were separate entities, as they had only 50% common control, which does not meet the “more than 50 percent” rule for related partnerships under section 707(b). The court invalidated the regulation attributing partnership use to individual partners, as it would render the statutory provisions meaningless and contradict the legislative intent to encourage economic growth through investment credits. The court noted that Congress intended a liberal reading of the statute to stimulate investment, and the change in ownership and use in this case furthered that goal.

Practical Implications

This decision clarifies that a partner can claim an investment credit for used property acquired from a partnership if there is a change in both ownership and use. Practitioners should carefully analyze the ownership structure and use of property before and after acquisition to determine eligibility for the credit. The ruling may encourage the turnover of business assets by allowing investment credits for used property in certain partnership scenarios. However, the dissent highlights potential complexities in applying this rule, particularly in cases involving family relationships or minor shifts in partnership ownership. Subsequent cases, such as Sherar v. United States, have applied this ruling to sale-and-leaseback transactions, further defining the scope of the investment credit for used property.

