Moore v. Commissioner, 58 T. C. 1045 (1972)

Mobile homes used for lodging are tangible personal property for tax purposes if not permanently affixed to land, but may not qualify for investment credit if used predominantly for lodging.

Summary

Joseph and Mary Moore sought to claim an investment credit and additional first-year depreciation on mobile homes used for rental at their trailer park. The Tax Court ruled that the mobile homes were tangible personal property under both sections 38 and 179 of the Internal Revenue Code, as they were not permanently affixed to the land. However, they were ineligible for the investment credit because they were used predominantly for lodging and did not meet the transient use exception under section 48(a)(3)(B). The Moores were allowed to claim additional first-year depreciation under section 179, which lacks the lodging use restriction.

Facts

Joseph Moore operated Tupelo Trailer Rentals, where he purchased mobile homes in 1965 and 1966 for rental purposes. The mobile homes were placed on concrete blocks but remained movable, with wheels intact. They were assessed and taxed as personal property. Tenants rented the homes on a weekly or monthly basis, with most paying weekly. Approximately 90% of tenants paid weekly, and over 50% stayed less than 30 days. The mobile homes were not advertised as transient accommodations and did not offer daily or overnight rentals.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Moores' income tax for 1965 and 1966, disallowing the claimed investment credit and additional first-year depreciation on the mobile homes. The Moores petitioned the U. S. Tax Court for a redetermination of the deficiencies. The court held that the mobile homes qualified as tangible personal property under sections 38 and 179 but were ineligible for the investment credit under section 48(a)(3). The court allowed the additional first-year depreciation under section 179.

Issue(s)

1. Whether the mobile homes purchased in 1965 and 1966 qualify as "section 38 property," entitling the Moores to the investment credit under section 38 of the Internal Revenue Code.
2. Whether the mobile homes purchased in 1965 and 1966 qualify as "section 179 property," entitling the Moores to additional first-year depreciation under section 179 of the Internal Revenue Code.

Holding

1. No, because the mobile homes, while tangible personal property, were used predominantly to furnish lodging and did not meet the transient use exception under section 48(a)(3)(B).
2. Yes, because the mobile homes were tangible personal property under section 179, and section 179 lacks the lodging use restriction found in section 48(a)(3).

Court's Reasoning

The court applied the statutory definitions and regulations to determine that the mobile homes were tangible personal property because they were not permanently affixed to the land, despite being used for lodging. The court rejected the Commissioner's argument that the mobile homes were buildings due to their function, emphasizing that permanence on the land was required for that classification. The court also found that the mobile homes were used predominantly to furnish lodging, disqualifying them from the investment credit under section 48(a)(3). The court rejected the Moores' argument that tenants paying rent weekly qualified as transients, holding that the period of occupancy, not the payment frequency, determined transient status. For section 179, the court applied the same tangible personal property test but noted the absence of a lodging use restriction, allowing the Moores to claim additional first-year depreciation.

Practical Implications

This decision clarifies that mobile homes not permanently affixed to land are considered tangible personal property for tax purposes, impacting how similar assets are classified for depreciation and investment credit eligibility. Practitioners should note that the use of such property for lodging can disqualify it from investment credit under section 48(a)(3), but not from additional first-year depreciation under section 179. This ruling affects tax planning for businesses using mobile homes or similar assets, as they must consider the distinction between sections 38 and 179 when seeking tax benefits. Subsequent cases have applied this reasoning to other types of property, reinforcing the importance of the permanence and use tests in tax classification.