Sunnyside Nurseries, Also Known as Sunnyside Nurseries, Inc. , a Corporation, Petitioner v. Commissioner of Internal Revenue, Respondent, 59 T. C. 113 (1972)

Greenhouses are classified as buildings for tax purposes and thus do not qualify for investment tax credits under Section 38 of the Internal Revenue Code.

Summary

Sunnyside Nurseries sought investment tax credits for expenditures on greenhouses, claiming they were not buildings under Section 48(a)(1)(B) of the IRC. The Tax Court, however, ruled that the greenhouses were indeed buildings due to their structural characteristics and function as working spaces, thus ineligible for the credits. The decision hinged on the common meaning of 'building' as defined by Congress and the IRS, focusing on the greenhouses' physical attributes and regular human occupation.

Facts

Sunnyside Nurseries, a California corporation, was involved in growing and selling various plants. They constructed greenhouses in Salinas, California, which were steel-framed, glass-walled structures used to grow plants year-round. The greenhouses had sophisticated environmental control systems and were regularly occupied by employees for various plant processing activities. Sunnyside claimed investment tax credits for the construction costs of these greenhouses.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Sunnyside's income tax for the years ending June 30, 1964, 1966, 1967, and 1968, disallowing the claimed investment credits. Sunnyside appealed to the U. S. Tax Court, which heard the case and issued a decision on October 19, 1972, denying the credits.

Issue(s)

1. Whether the greenhouses constructed by Sunnyside Nurseries were "buildings" within the meaning of Section 48(a)(1)(B) of the Internal Revenue Code.

Holding

1. Yes, because the greenhouses met the common definition of a building, characterized by their structural components and function as working spaces for employees, making them ineligible for investment tax credits under Section 38 of the IRC.

Court's Reasoning

The court applied the common meaning of 'building' as directed by Congress and the IRS, which includes structures enclosing space with walls and a roof, typically used for shelter or working space. The greenhouses were found to fit this definition due to their physical construction (steel frame, glass walls, concrete floors) and regular human occupation for plant processing activities. The court distinguished the greenhouses from structures like storage tanks or silos, which are more akin to machinery or equipment. The court also noted that local law exemptions from building permits were irrelevant to the federal tax definition of a building. The decision was supported by referencing similar cases and IRS rulings where structures were classified as buildings based on similar criteria.

Practical Implications

This decision clarifies that for tax purposes, greenhouses are considered buildings if they are structurally similar to traditional buildings and used as working spaces. Tax practitioners should advise clients in agriculture and horticulture that expenditures on such greenhouses do not qualify for investment tax credits. Businesses in these sectors must consider alternative tax strategies for capital investments in greenhouse structures. Subsequent cases and IRS rulings have followed this precedent, impacting how similar structures are treated for tax purposes across various industries.