Thirup v. Commissioner, 59 T. C. 122, 1972 U. S. Tax Ct. LEXIS 40 (1972)

Greenhouses constructed primarily for controlled plant growth are considered 'buildings' under section 48(a)(1)(B) of the Internal Revenue Code, making them ineligible for investment tax credit.

Summary

In Thirup v. Commissioner, the U. S. Tax Court ruled that greenhouses used for growing roses and carnations were 'buildings' under section 48(a)(1)(B) of the IRC, thus ineligible for the investment tax credit under section 38. The court compared the greenhouses to those in Sunnyside Nurseries, emphasizing their structural similarity and functional use. Despite being less substantial than the Sunnyside greenhouses, the court determined that Thirup's greenhouses served identical purposes and housed workers regularly, leading to the decision that they did not qualify as 'section 38 property. '

Facts

Arne Thirup operated Pajaro Valley Greenhouses, a sole proprietorship engaged in growing and selling cut flowers, primarily roses and carnations. In 1966, Thirup invested $79,841. 39 in constructing a principal greenhouse and improving smaller ones. These structures had wood frames, fiber glass roofs and walls, and floors consisting of the bare ground. The greenhouses allowed for year-round flower cultivation with controlled environments, including automated temperature regulation and specialized irrigation and fertilization systems. Thirup's employees spent significant time working inside these greenhouses, performing tasks such as planting, nurturing, and harvesting the flowers.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Thirup's 1966 income tax, disallowing an investment credit of $4,363. 34 related to the greenhouse expenditures. Thirup contested this disallowance, leading to the case being heard by the U. S. Tax Court. The court's decision on this matter was issued concurrently with Sunnyside Nurseries, another case involving greenhouses.

Issue(s)

1. Whether the greenhouses constructed by Pajaro Valley Greenhouses were 'buildings' within the meaning of section 48(a)(1)(B) of the Internal Revenue Code.

Holding

1. Yes, because the greenhouses were sufficiently similar in structure and function to those in Sunnyside Nurseries, which were held to be 'buildings,' and therefore ineligible for the investment tax credit under section 38 of the Code.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court applied the definition of ‘section 38 property’ from section 48(a)(1) of the IRC, which excludes ‘buildings’ and their structural components. The court compared the greenhouses in question to those in Sunnyside Nurseries, noting that while Thirup’s greenhouses were less substantial, they served the same purpose of creating controlled environments for plant growth and provided working space for employees. The court emphasized the overall structural similarity and common understanding of the term ‘building,’ concluding that the greenhouses in both cases were functionally and physically akin. The decision was influenced by the policy to limit investment credit to tangible personal property or other tangible property used integrally in specified activities, not to structures that resemble traditional buildings.

Practical Implications

This ruling clarifies that greenhouses, despite their specialized agricultural use, can be considered ‘buildings’ for tax purposes, impacting how similar structures are classified in future tax credit claims. Tax practitioners must carefully analyze the structural components and primary use of such facilities to determine eligibility for investment credits. This decision may affect agricultural businesses that rely on controlled environment structures, potentially influencing their tax planning and investment decisions. Subsequent cases have followed this precedent, distinguishing between structures that are integral to production processes versus those that serve as traditional buildings.

© 2025 SCOTUSreports.com. All rights reserved.