Whiteco Industries, Inc. v. Commissioner, 65 T. C. 664 (1975)

Greenhouses are considered “buildings” for the purposes of tax credits under section 38 of the Internal Revenue Code if they resemble traditional buildings in structure and function.

Summary

In Whiteco Industries, Inc. v. Commissioner, the Tax Court determined that greenhouses constructed by the petitioner did not qualify for investment tax credits under section 38 of the Internal Revenue Code because they were classified as “buildings. ” The key issue was whether the greenhouses, which were permanent structures with steel and aluminum frames, concrete floors, and glass walls and roofs, should be considered “buildings” under the statute. The court held that the greenhouses fit the commonly accepted definition of a building, emphasizing their structural similarity to traditional buildings and their use as working spaces. This ruling impacted how specialized structures are treated for tax purposes, clarifying that the term “building” in the tax code should be interpreted broadly.

Facts

Whiteco Industries, Inc. constructed greenhouses for commercial plant processing. These greenhouses had steel and aluminum frames, concrete floors, and glass walls and roofs, completely enclosing a large volume of space. They were built over concrete foundations using commonly used building materials and were permanent in nature. The greenhouses had doors, vents resembling windows, and heating systems. A significant number of employees regularly worked inside these structures, engaging in various activities related to plant processing.

Procedural History

Whiteco Industries, Inc. sought investment tax credits under section 38 of the Internal Revenue Code for its greenhouse expenditures. The Commissioner of Internal Revenue denied these credits, classifying the greenhouses as “buildings,” which are excluded from the definition of “section 38 property. ” The case proceeded to the Tax Court, where the petitioner challenged the Commissioner’s determination.

Issue(s)

1. Whether the greenhouses constructed by Whiteco Industries, Inc. qualify as “section 38 property” under section 48(a)(1)(B) of the Internal Revenue Code.

Holding

1. No, because the greenhouses were determined to be “buildings” under the commonly accepted meaning of the term, as defined by the statute and regulations.

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Court’s Reasoning

The court applied the statutory definition of “building” as provided in section 48(a)(1)(B) and the accompanying regulations, which stated that a building is a structure or edifice enclosing a space within its walls, usually covered by a roof, and used for purposes like providing shelter or working space. The court noted that the greenhouses resembled the examples of buildings listed in the regulations more closely than structures explicitly excluded, such as storage facilities or machines. The court emphasized that the greenhouses were permanent structures with common building materials and were regularly used as working spaces by numerous employees. The court rejected the petitioner’s argument that greenhouses should be treated as specialized structures, citing the congressional intent that “building” be given its commonly accepted meaning. The court also referenced prior cases and revenue rulings, distinguishing the greenhouses from structures not considered buildings due to their physical attributes and regular human occupation.

Practical Implications

This decision has significant implications for businesses seeking tax credits for specialized structures. It clarifies that the term “building” in the tax code should be interpreted broadly, including structures like greenhouses that resemble traditional buildings in their construction and use. Legal practitioners must carefully assess whether a structure qualifies as a building under the tax code, even if it serves a specialized function. This ruling may influence future cases involving tax credits for structures used in agriculture or other industries, emphasizing the importance of the structure’s physical attributes and its use as a working space. Businesses must now consider the tax implications of constructing such structures, potentially affecting investment decisions and tax planning strategies.

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