Hi-Plains Enterprises, Inc. v. Commissioner, 56 T. C. 166 (1971)

A feedlot operation can be classified as a farm for tax accounting purposes, allowing the use of the cash method of accounting.

Summary

Hi-Plains Enterprises, Inc. , a Kansas corporation operating a feedlot, filed its tax returns on a cash basis despite maintaining its books on an accrual basis. The IRS challenged this, asserting that Hi-Plains should use the accrual method due to its commercial nature. The court held that a feedlot is a farm under tax regulations, permitting Hi-Plains to use the cash method. This decision was influenced by the broad definition of “farm” in tax regulations and precedents classifying similar operations as farms. The ruling has implications for how similar agricultural businesses should approach their tax accounting methods.

Facts

Hi-Plains Enterprises, Inc. , a Kansas corporation, operated a feedlot in Leoti, Kansas, and filed its corporate income tax returns for 1966, 1967, and 1968 on a cash basis. The IRS determined deficiencies totaling $343,901. 46, asserting that Hi-Plains should use the accrual method since it maintained its books on that basis. Hi-Plains’ feedlot business involved finishing cattle for sale, with about half the livestock owned by Hi-Plains and the rest by customers. The company deducted feed costs currently and took inventories of its livestock, despite filing on a cash basis.

Procedural History

The IRS issued a 30-day letter and a statutory notice of deficiency to Hi-Plains, adjusting its income to reflect the accrual method. Hi-Plains contested these adjustments, leading to a trial before the Tax Court. The court heard arguments on whether Hi-Plains could use the cash method for tax reporting despite using the accrual method for its books.

Issue(s)

1. Whether a feedlot operation like Hi-Plains can be classified as a farm for tax accounting purposes.

2. Whether Hi-Plains, if classified as a farm, can elect to use the cash method of accounting for tax purposes despite keeping its books on an accrual basis.

Holding

1. Yes, because the definition of “farm” in the tax regulations encompasses feedlot operations.

2. Yes, because as a farm, Hi-Plains has the option to use the cash method for tax purposes, even if it keeps its books on an accrual basis.

Court's Reasoning

The court relied on the broad definition of "farm" in the Income Tax Regulations, which includes operations like stock, dairy, poultry, fruit, and truck farms, as well as plantations and ranches. The court cited precedents such as W. P. Garth and United States v. Chemell, which classified similar agricultural businesses as farms. The court also noted the IRS's own rulings classifying feedlots as farms for other tax purposes. The court rejected the IRS's argument that the location of Hi-Plains' adjusting entries by its accountants precluded them from being part of its books. The court concluded that Hi-Plains was a farmer and could elect to file on a cash basis, as supported by the regulation allowing farmers to choose their accounting method.

Practical Implications

This decision allows feedlot operations to be treated as farms for tax purposes, potentially enabling them to use the cash method of accounting. This can affect how similar agricultural businesses structure their tax reporting, potentially simplifying their tax calculations and improving cash flow by allowing immediate deductions for feed costs. The ruling may also influence the IRS's approach to auditing such businesses, requiring them to consider the broad definition of "farm" under the tax code. Subsequent cases and IRS guidance may need to address the boundaries of what constitutes a farm, particularly in the context of modern agricultural operations.

