Merchants Refrigerating Co. v. Commissioner, 60 T. C. 856 (1973)

A freezer room used exclusively for storing frozen foods can qualify as a 'storage facility' under section 48(a)(1)(B)(ii) of the Internal Revenue Code, eligible for the investment tax credit, even if it is part of a larger structure that could be considered a building.

Summary

Merchants Refrigerating Company sought to claim an investment tax credit for a freezer room constructed within a larger cold storage warehouse. The IRS denied the credit, arguing the freezer room was part of a 'building' and thus ineligible. The Tax Court held that the freezer room qualified as a 'storage facility' under IRC section 48(a)(1)(B)(ii), following precedent that allowed such structures to be eligible for the credit despite being part of a larger building. The decision emphasized the room's exclusive use for storage and its integral role in the food processing industry, impacting how similar facilities might claim tax benefits.

Facts

Merchants Refrigerating Company, a subsidiary of a New York corporation, built a new cold storage warehouse ('Building F') in Modesto, California, in 1968. The main component of Building F was a large freezer room used exclusively for storing frozen foods from various food-processing companies, including John Inglis Frozen Foods. The freezer room was insulated, had a volume of approximately 772,200 cubic feet, and was equipped with air conditioning units. The IRS determined a deficiency in the company's 1968 income tax, disallowing the investment credit claimed for the freezer room, which amounted to $277,132. 91 of the total construction costs.

Procedural History

The Commissioner of Internal Revenue determined a deficiency of $19,823. 50 in Merchants Refrigerating Company's 1968 income tax due to the disallowance of the investment credit for the freezer room. The company filed a petition with the United States Tax Court, which ruled in favor of the petitioner, allowing the freezer room to be classified as a 'storage facility' eligible for the investment credit.

Issue(s)

1. Whether the freezer room within Building F qualifies as 'section 38 property' under section 48(a)(1)(B)(ii) of the Internal Revenue Code, thereby being eligible for the investment credit.

Holding

1. Yes, because the freezer room was used solely for storage purposes and was

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integral to the food processing industry, following the precedent set in Robert E. Catron and Central Citrus Co.

Court’s Reasoning

The Tax Court applied the legal rule from section 48(a)(1)(B)(ii) of the IRC, which allows for an investment credit for a ‘storage facility’ used in connection with manufacturing or production activities, provided it is not a ‘building. ‘ The court relied on prior decisions in Robert E. Catron and Central Citrus Co. , which established that a storage facility could qualify for the credit even if part of a larger structure. The court noted the freezer room’s exclusive use for storage, its insulation, and the absence of any processing activities within it, distinguishing it from a mere ‘building. ‘ The court rejected the IRS’s argument that the freezer room did not qualify as a ‘storage facility’ due to the lack of fungible goods storage, as this requirement was introduced in 1971 amendments not applicable to the case year. The decision was influenced by principles of stare decisis, as the relevant statutory provisions had not been amended at the time of the case.

Practical Implications

This decision expands the scope of what can be considered a ‘storage facility’ for investment tax credit purposes, allowing businesses to claim credits for specialized storage structures within larger buildings. It may encourage companies in the food processing and storage industry to invest in similar facilities, knowing they can benefit from tax credits. Legal practitioners should consider this case when advising clients on the eligibility of storage facilities for tax credits, particularly when the facilities are part of larger structures. Subsequent cases like Brown & Williamson Tobacco Corp. v. United States have referenced this decision, indicating its influence on later interpretations of ‘storage facility’ definitions under the IRC.

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