## *Clairmont v. Commissioner, 64 T. C. 1130 (1975)*

A seasonal business's method of calculating first-year depreciation must adhere to the annual depreciation methods specified in the tax regulations.

### Summary

William Clairmont, Inc. , a seasonal construction company, used a 7-month depreciation method for equipment acquired during the year, arguing that their equipment only depreciated during the construction season. The Tax Court held that this method was not a "reasonable allowance" under IRC section 167(a), as it did not follow the annual depreciation methods outlined in the regulations. The court emphasized that depreciation must be computed on an annual basis, not based on actual use, and that Clairmont's method resulted in an accelerated first-year depreciation that distorted the overall depreciation schedule.

### Facts

William Clairmont, Inc. , an electing small business corporation owned by William E. Clairmont, was engaged in the construction business, primarily operating in North Dakota and neighboring states during a 7 to 8. 5-month construction season due to harsh winter conditions. The corporation used the declining balance and sum of the years-digits methods for depreciation but applied a 7-month proration to calculate first-year depreciation on equipment acquired during the year, claiming full-year depreciation for assets acquired before June. This method was applied even to equipment used year-round, such as trucks and aircraft, and equipment leased in Arizona where there was no seasonal limitation.

### Procedural History

The Commissioner of Internal Revenue determined deficiencies in the Clairmonts' federal income taxes for 1967-1970 due to the disallowed depreciation deductions. The Clairmonts petitioned the Tax Court, which heard the case and issued a decision in favor of the Commissioner on September 30, 1975.

### Issue(s)

1. Whether the method used by William Clairmont, Inc. , to calculate first-year depreciation on assets acquired during the year, by applying a 7-month proration, complied with the requirements of IRC section 167.

### Holding

1. No, because the method used by Clairmont was inconsistent with the annual depreciation methods specified in the tax regulations and did not produce a "reasonable allowance" for depreciation under IRC section 167(a).

 

## Court’s Reasoning

The court applied IRC section 167(a) and the related regulations, which allow a “reasonable allowance” for depreciation and specify that depreciation should be computed on an annual basis using methods like the declining balance and sum of the years-digits. The court found that Clairmont’s 7-month method was inconsistent with the regulations because it did not start depreciation when the asset was placed in service and did not end it when the asset was retired. The court emphasized that depreciation must be computed annually, not based on actual use, and that Clairmont’s method resulted in an accelerated first-year depreciation that distorted the overall depreciation schedule. The court also noted that Clairmont’s method was applied inconsistently, as it was used for equipment that was used year-round and in climates without seasonal limitations. The court concluded that Clairmont’s method did not meet the statutory requirement of a “reasonable allowance” for depreciation.

## Practical Implications

This decision clarifies that businesses, especially those with seasonal operations, must adhere to the annual depreciation methods specified in the tax regulations when calculating first-year depreciation. The ruling prevents the acceleration of depreciation deductions in the first year of an asset’s use, which could have significant tax planning implications for seasonal businesses. It also underscores the importance of consistent application of depreciation methods across all assets, regardless of their actual use or location. Subsequent cases have applied this ruling to ensure that depreciation calculations are based on the asset’s entire taxable year, not just the period of actual use.

 