Manassas Airport Industrial Park, Inc. v. Commissioner, 72 T. C. 588 (1979)

A corporation may be deemed collapsible if it was availed of principally for construction with a view towards liquidation before realizing a substantial part of its taxable income.

Summary

In Manassas Airport Industrial Park, Inc. v. Commissioner, the Tax Court held that the petitioner was a collapsible corporation under section 341(b) of the Internal Revenue Code, thus precluding it from nonrecognition benefits under section 337(a). The case centered on the sale of real property and the allocation of road construction costs. The court determined that the petitioner engaged in continuous construction activities up to the point of liquidation, and only realized 9. 3% of its taxable income before the intent to liquidate, which was deemed not substantial. This ruling impacts how taxable income is computed for collapsible corporations and highlights the complexities of determining when construction ends for tax purposes.

Facts

Petitioner, Manassas Airport Industrial Park, Inc. , purchased the Hurst Farm in 1965 with the intention of developing and reselling the property. It subdivided the land and facilitated the construction of access roads, including a specific obligation to construct a road to the Powell property sold in April 1968. Discussions about potential liquidation started in March 1968, and a plan of liquidation was adopted in August 1968. The Commissioner assessed a deficiency in petitioner’s federal income tax, arguing that it was a collapsible corporation and had not realized a substantial part of its taxable income before liquidation.

Procedural History

The Commissioner determined a tax deficiency and the petitioner contested it. The case came before the U. S. Tax Court, which reviewed the issues of collapsible corporation status and the allocation of construction costs among the sold properties.

Issue(s)

1. Whether the petitioner was a collapsible corporation under section 341(b) when it adopted its plan of liquidation?
2. If not a collapsible corporation, whether the petitioner sold its property in a bulk sale to one person in one transaction as per section 337(b)(2)?
3. How should the cost of constructing the Powell property road be allocated among the properties sold?

Holding

1. Yes, because the petitioner was availed of principally for construction with a view towards liquidation before realizing a substantial part of its taxable income, which was only 9. 3%.
2. The court did not reach this issue due to the affirmative answer to the first issue.
3. The court allocated $35,000 of the road construction cost to the Powell property and the remainder to parcels P and Q, based on the benefits each property derived from the road.

Court's Reasoning

The court applied section 341(b) to determine that the petitioner was a collapsible corporation because it engaged in continuous construction activities up to the point of liquidation. The construction of the Powell property road was considered to have commenced when the petitioner became obligated to absorb its cost, not when physical construction began. The court rejected the petitioner's argument that construction had ended more than three years before the shareholders realized gain, citing that the construction obligation persisted. The court also computed the taxable income derived from the property, excluding unrelated interest income but including rental income and expenses, and determined that the 9. 3% realized before liquidation was not substantial. The court relied on previous cases such as Sproul Realty Co. and James B. Kelley to support its analysis of taxable income and collapsible corporation status.

Practical Implications

This decision clarifies that construction activities can be deemed continuous for tax purposes even if physical work has not yet started, as long as the corporation is obligated to undertake it. For legal practitioners, this means careful consideration of when construction begins and ends is crucial for determining collapsible corporation status. Businesses involved in real estate development must be aware of the tax implications of their development plans and liquidation intentions. Subsequent cases have cited Manassas for its approach to determining what constitutes a substantial part of taxable income and the broader interpretation of construction activities in the context of collapsible corporations.

