

## ***Crawford v. Commissioner, 70 T. C. 289 (1978)***

Prior use of property by a person related to the taxpayer can disqualify the property from being considered as “used section 38 property” for investment credit purposes.

### **Summary**

In *Crawford v. Commissioner*, the Tax Court ruled that petitioners were not eligible for investment tax credit on their purchase of an orchard farm because the property was previously used by a corporation in which the petitioner had a significant familial stake. The court held that the intervening ownership by a bank did not negate the prior use by the related party, *Crawford Orchard, Inc.*, thus disqualifying the property from being considered “used section 38 property.” The decision underscores the importance of considering the relationships between prior users and current taxpayers when claiming investment credits, emphasizing that such credits are designed to prevent abuse through transactions that circumvent the intent of tax legislation.

### **Facts**

Dean E. Crawford and Mary A. Crawford purchased an orchard farm from the Old State Bank of Fremont on December 28, 1971, after the bank had foreclosed on the property from *Crawford Orchard, Inc.*, a corporation owned primarily by Dean’s father, Clarence Crawford, Sr. Dean owned 5% of *Crawford Orchard, Inc.*, and his brothers owned the remaining 10%. The Crawfords claimed an investment credit for the orchard as “used section 38 property” on their 1971 tax return, which was disallowed by the IRS. The IRS argued that the property did not qualify because it was used by a related party before the Crawfords’ acquisition.

### **Procedural History**

The case was submitted to the U. S. Tax Court under Rule 122, with all facts stipulated. The Tax Court reviewed the case to determine whether the orchard farm qualified as “used section 38 property” for investment credit purposes.

### **Issue(s)**

1. Whether the orchard farm purchased by the Crawfords qualifies as “used section 38 property” under section 48(c)(1) of the Internal Revenue Code, given its prior use by *Crawford Orchard, Inc.*, a corporation in which Dean Crawford had a familial interest?

### **Holding**

1. No, because the property was used by *Crawford Orchard, Inc.*, a corporation related to Dean Crawford under section 179(d)(2)(A) and section 267(b)(2), before its acquisition by the Crawfords, thus disqualifying it from being considered “used

section 38 property. “

### **Court’s Reasoning**

The Tax Court applied the rules under sections 48(c)(1), 179(d)(2)(A), and 267(b)(2) of the Internal Revenue Code, which define the conditions under which property can be considered “used section 38 property. ” The court found that the property was used by Crawford Orchard, Inc. , prior to its acquisition by the Crawfords. Under the attribution rules, Dean Crawford was considered to own 90% of Crawford Orchard, Inc. , due to his and his father’s stock ownership, which established a prohibited relationship under the Code. The court emphasized that the intervening ownership by the bank did not negate this prior use by a related party. The decision was supported by legislative intent to prevent abuse of investment credits through transactions designed to circumvent tax laws, as noted in the Senate Report on the relevant tax legislation.

### **Practical Implications**

This decision has significant implications for taxpayers seeking investment credits for used property. It clarifies that the eligibility of property for such credits depends not only on the direct transaction between buyer and seller but also on the prior use of the property by related parties. Legal practitioners must carefully assess familial and corporate relationships when advising clients on investment credit claims. The ruling also reinforces the IRS’s ability to scrutinize transactions for potential abuse, even when an unrelated party, such as a bank, intervenes in the chain of ownership. Subsequent cases have cited Crawford in similar contexts, reinforcing its role in interpreting the “used section 38 property” provisions of the tax code.