

## ***Worth v. Commissioner, 74 T. C. 1029 (1980)***

Construction of a new principal residence begins for tax credit purposes when specific work directly related to the residence occurs, even if it precedes the main building activities.

### **Summary**

In *Worth v. Commissioner*, the Tax Court ruled that the installation of French drains by petitioners before March 26, 1975, constituted the commencement of construction on their new principal residence, making them eligible for a tax credit under section 44 of the Internal Revenue Code. The petitioners, who planned to build their home on a lot with significant water drainage issues, installed the drains to prevent future basement flooding. The court distinguished this from mere land preparation, holding that the specific purpose of the drains to protect the house qualified as construction. This decision underscores the importance of the nature and purpose of pre-construction activities in determining eligibility for tax credits related to new residences.

### **Facts**

In September 1973, the petitioners purchased a lot in Federal Way, Washington, intending to build their new home. The lot's location near a bluff and creek caused significant subsurface water drainage. To address this, the petitioners installed French drains in September and October 1974 to divert water away from the future basement location. They also placed 28 tons of rock on the creek bank in November and December 1974 to prevent erosion. The actual construction of the house and garage began in June 1975, and the house was completed and occupied in 1975. The petitioners claimed a \$2,000 tax credit under section 44 for the purchase of a new principal residence, which the Commissioner disallowed.

### **Procedural History**

The Commissioner determined a deficiency of \$2,074. 55 in the petitioners' 1975 federal income tax and disallowed their claimed credit under section 44. The petitioners appealed to the Tax Court, which held that the installation of the French drains before March 26, 1975, constituted the commencement of construction, thereby making them eligible for the credit.

### **Issue(s)**

1. Whether the installation of French drains before March 26, 1975, constitutes the commencement of construction on the petitioners' new principal residence for purposes of section 44 of the Internal Revenue Code.

### **Holding**

1. Yes, because the installation of the French drains was directly related to the construction of the new residence and not mere land preparation.

### **Court's Reasoning**

The court reasoned that the installation of French drains was more akin to the excavation of a basement or the preparation of an earthen pad than to mere land preparation. The court cited the Internal Revenue Code and Regulations, which define construction as beginning when actual physical work of a significant amount occurs on the building site of the residence. The court emphasized that the French drains were specifically designed to protect the future basement from flooding, making them directly attributable to the new residence rather than general land preparation. The court distinguished this case from *Reddy v. United States*, where the pre-construction work was limited to general land clearing and development-wide improvements, not specific to any individual residence. The court concluded that the chronological order of the work, driven by practical considerations, should not affect its classification as construction.

### **Practical Implications**

This decision has significant implications for taxpayers seeking tax credits for new principal residences. It clarifies that pre-construction activities directly related to the residence, such as installing drainage systems to protect the structure, can qualify as the commencement of construction. Legal practitioners should advise clients to document and emphasize the specific purpose of any pre-construction work in relation to the residence when claiming such credits. This ruling may affect how developers and homeowners plan and time their construction projects to maximize tax benefits. Subsequent cases, such as those involving similar pre-construction activities, may rely on *Worth* to determine eligibility for section 44 credits. This case also highlights the importance of understanding the nuances of tax regulations and how they apply to specific factual scenarios.