Munford, Inc. v. Commissioner, 87 T. C. 463 (1986)

A refrigerated storage facility is not tangible personal property eligible for an investment tax credit under Section 38 unless it functions as machinery and is not an inherently permanent structure.

Summary

Munford, Inc. sought an investment tax credit for an addition to its refrigerated food storage facility. The Tax Court ruled that the truck and rail loading platforms were ineligible buildings, while the refrigerated area, though not a building, was not tangible personal property. The court emphasized the distinction between tangible personal property under Section 48(a)(1)(A) and other tangible property under Section 48(a)(1)(B), holding that the refrigerated area did not qualify under either category due to its inherently permanent nature and lack of use in a qualifying activity.

Facts

Munford, Inc. constructed an addition to its refrigerated facility in Atlanta, used for storing final-processed frozen foods. The addition included a refrigerated area (34,650 sq ft), a truck loading platform (3,900 sq ft), and a rail loading platform (1,030 sq ft). Munford claimed an investment tax credit under Section 38 for costs related to the addition, arguing it was tangible personal property. The IRS allowed the credit only for certain refrigeration system components, denying it for the structural elements and loading platforms.

Procedural History

Munford appealed to the U. S. Tax Court after the IRS denied the investment tax credit for most of the addition’s costs. The court heard arguments on whether the entire addition, or parts thereof, qualified as tangible personal property under Section 48(a)(1)(A).

Issue(s)

1. Whether the truck loading platform and rail loading platform of the addition are “buildings” ineligible for the investment tax credit under Section 48(a)(1)(A)?
2. Whether the refrigerated area of the addition constitutes tangible personal property under Section 48(a)(1)(A), thus qualifying for the investment tax credit?

Holding

1. Yes, because the loading platforms provide working space for employees and resemble traditional buildings in function and appearance.
2. No, because although the refrigerated area is not a building, it is an inherently permanent structure and does not function as machinery, failing to meet the criteria

© 2025 SCOTUSreports.com. All rights reserved.

for tangible personal property under Section 48(a)(1)(A).

Court’s Reasoning

The court applied a functional test to determine that the loading platforms were buildings due to their use as workspaces. For the refrigerated area, the court found it was not a building but was an inherently permanent structure, ineligible for the credit under Section 48(a)(1)(A). The court rejected Munford’s argument that the refrigerated area was “property in the nature of machinery,” distinguishing it from cases like Weirick v. Commissioner. The court emphasized the statutory distinction between tangible personal property and other tangible property, noting that the refrigerated area would need to be used in a qualifying activity to be eligible under Section 48(a)(1)(B), which it was not. The court also noted that the structural elements of the refrigerated area were not closely related to the refrigeration system to be considered a single asset in the nature of machinery.

Practical Implications

This decision clarifies that large, inherently permanent refrigerated structures do not qualify for investment tax credits under Section 48(a)(1)(A) unless they function as machinery. Practitioners should carefully distinguish between tangible personal property and other tangible property, ensuring clients’ assets meet the specific criteria for each category. Businesses should consider the use of their facilities in qualifying activities to potentially claim credits under Section 48(a)(1)(B). Subsequent cases have cited Munford in distinguishing between structures eligible for different types of tax credits. For example, structures similar to Munford’s refrigerated area might still qualify for other tax benefits if used in qualifying activities like manufacturing or bulk storage of fungible commodities.

© 2025 SCOTUSreports.com. All rights reserved.