L&B Corp. v. Commissioner, 88 T. C. 744 (1987)

Refrigerated structures used for cold storage of meat and other food products may be considered non-buildings for investment tax credit if they do not function as buildings.

Summary

L&B Corporation and related partnerships sought investment tax credits for refrigerated structures used for cold storage of meat and other food products. The Tax Court held that these structures were not buildings under the function test of the investment tax credit regulations, as they did not provide working space for employees but rather facilitated low-temperature storage. However, the court denied the credit because the storage did not constitute processing or bulk storage of fungible commodities. The court also ruled on the depreciation method and useful life of the structures.

Facts

L&B Corporation and its partners operated refrigerated storage facilities in Nebraska and Iowa, which were primarily used for cold storage of meat and other food products by meat packers. The facilities included refrigerated structures, truck turn-arounds, and railroad tracks. The partnerships claimed investment tax credits for these assets, asserting that the structures were not buildings and were used as an integral part of meat processing or for bulk storage of fungible commodities.

Procedural History

The Commissioner disallowed the investment tax credits, allowing them only for certain refrigeration components. The partnerships appealed to the U. S. Tax Court, which heard the case and issued its opinion on April 6, 1987.

Issue(s)

1. Whether the refrigerated structures, truck turn-arounds, and railroad tracks qualify for investment tax credits under section 38 as non-buildings used as an integral part of meat processing or for bulk storage of fungible commodities.
2. Whether the partnerships may use the 200-percent-declining-balance method for depreciation of the refrigerated structures and truck turn-arounds.
3. Whether the useful lives of the refrigerated structures and railroad tracks should be 15 years or 33 1/3 years for depreciation purposes.

Holding

1. No, because although the refrigerated structures were not buildings under the function test, they were not used as an integral part of meat processing nor for bulk storage of fungible commodities.

2. No, because the property did not qualify as section 1245 property, thus the 150-percent-declining-balance method must be used.
3. Yes for the refrigerated structures, which have a useful life of 15 years; No for the railroad tracks, which have a useful life of 33 1/3 years as determined by the Commissioner.

Court's Reasoning

The court applied the two-part test from the regulations to determine if the refrigerated structures were buildings: the appearance test and the function test. The structures satisfied the appearance test but not the function test, as they did not provide working space for employees but rather facilitated low-temperature storage. The court relied on Munford, Inc. v. Commissioner, where similar structures were deemed not to function as buildings. However, the court denied the investment tax credit because the storage of meat did not constitute a qualifying activity under section 48(a)(1)(B)(i) or (iii). The court also considered the testimony of food experts, concluding that the freezing and storage of meat did not involve a process as defined by the regulations. For depreciation, the court held that the structures were section 1250 property, limiting the depreciation method to 150 percent declining balance. The useful life of the structures was determined to be 15 years based on the taxpayer's experience, while the railroad tracks' useful life remained at 33 1/3 years due to lack of evidence from the taxpayer.

Practical Implications

This decision clarifies that refrigerated structures used for cold storage may not be considered buildings if they do not provide working space for employees. However, to qualify for investment tax credits, such structures must be used in a qualifying activity, such as processing or bulk storage of fungible commodities. Taxpayers should carefully analyze the function of their structures and the nature of the activities conducted within them when claiming investment tax credits. The case also impacts depreciation calculations, requiring the use of the 150-percent-declining-balance method for similar structures classified as section 1250 property. Subsequent cases have applied this ruling, distinguishing between structures used for storage and those used in processing activities.

