***Vail Associates, Inc. v. Commissioner, 88 T. C. 1391 (1987)***

Other tangible property used as an integral part of manufacturing qualifies for the Investment Tax Credit (ITC) regardless of whether the taxpayer is engaged in the trade or business of manufacturing.

**Summary**

Vail Associates, Inc. , sought an Investment Tax Credit for pipelines and a pumphouse used in their snow-making systems at ski resorts. The Tax Court ruled that these items qualified as "other tangible property" integral to the manufacturing of snow, thus eligible for the ITC. The court clarified that manufacturing activities do not need to be central to the taxpayer's business to qualify for the credit. This decision impacts how businesses can claim ITCs for equipment used in manufacturing processes integral to their operations but not their primary business activity.

**Facts**

Vail Associates operated ski resorts and manufactured snow to enhance skiing conditions and extend the ski season. The company claimed an ITC for the pipelines that transported and treated air and water used in snow-making, and for a pumphouse that housed equipment essential to the snow-making process. The IRS challenged the eligibility of these assets for the ITC, arguing that Vail was not in the trade or business of manufacturing.

**Procedural History**

Vail Associates filed a petition with the U. S. Tax Court after the IRS determined a deficiency in their federal income tax. The court addressed whether the pipelines and pumphouse qualified for the ITC under section 48 of the Internal Revenue Code.

**Issue(s)**

1. Whether pipelines used in snow-making systems qualify as "other tangible property" under section 48(a)(1)(B)(i) of the IRC and are eligible for an ITC.
2. Whether a pumphouse housing snow-making equipment qualifies as "other tangible property" under section 48(a)(1)(B)(i) of the IRC and is eligible for an ITC.

**Holding**

1. Yes, because the pipelines are used directly in and are essential to the manufacturing of snow, qualifying as other tangible property integral to manufacturing.
2. Yes, because the pumphouse, though resembling a building, functions primarily to house and protect equipment essential to the manufacturing of snow, qualifying as other tangible property integral to manufacturing.

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## Court’s Reasoning

The court applied the statutory language of section 48, legislative history, and regulations to conclude that manufacturing does not need to be the taxpayer’s primary business for property used in manufacturing to qualify for the ITC. The court found that the pipelines were integral to the snow-making process, cooling and drying the air and water necessary for snow production. The pumphouse, despite its appearance, was deemed not a building under the functional test because its primary purpose was to support the manufacturing equipment. The court emphasized the distinction in the statute between manufacturing and services like transportation, which require the taxpayer to be in the trade or business of furnishing such services to qualify for the ITC. The court’s decision was influenced by the legislative intent to encourage investment in manufacturing processes, regardless of the taxpayer’s primary business.

## Practical Implications

This decision broadens the scope of property eligible for the ITC, allowing businesses to claim credits for equipment used in manufacturing processes integral to their operations, even if manufacturing is not their primary business. It affects how companies in diverse industries can structure their investments to benefit from tax incentives. The ruling has implications for ski resorts and similar businesses that rely on manufactured products as part of their service offerings. Subsequent cases have applied this ruling to various manufacturing contexts, reinforcing its significance in tax planning and investment decisions.

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