Grant Creek Water Works, Ltd. v. Commissioner, 91 T. C. 322 (1988)

The court may certify questions of state law to the state's highest court if they are controlling in federal litigation and there is substantial ground for difference of opinion.

Summary

In *Grant Creek Water Works, Ltd. v. Commissioner*, the U. S. Tax Court denied the Commissioner's motion for summary judgment and granted the taxpayer's motion to certify a question of Montana law to the Montana Supreme Court. The case involved a water system transfer from Missoula County to a partnership, which was challenged as invalid. The court found genuine issues of material fact regarding the partnership's entitlement to depreciation and investment tax credit, necessitating a trial. The certified question pertained to the legality of the county's transfer under Montana law, which was crucial to resolving the case's core issues.

Facts

Missoula County established special improvement districts and constructed a water system. The county transferred the system to Western Montana Land Co. without monetary consideration but with certain operational obligations. Western then sold the system to R. Montana, Inc. , and subsequently to Grant Creek Water Works, Ltd. , which leased it back to Western. The Commissioner disallowed Grant Creek's claimed tax benefits, arguing the transfer was invalid and the partnership was formed for tax avoidance.

Procedural History

The Commissioner filed a motion for summary judgment, and Grant Creek moved to certify a question of Montana law to the Montana Supreme Court. The U. S. Tax Court heard arguments on both motions and ultimately denied the Commissioner's motion for summary judgment and granted Grant Creek's motion for certification.

Issue(s)

1. Whether Grant Creek Water Works, Ltd. is entitled to claim depreciation and investment tax credit on the water system despite the Commissioner's claim that the transfer from Missoula County was invalid.
2. Whether the court should certify a question of Montana law to the Montana Supreme Court regarding the validity of the county's transfer of the water system.

Holding

1. No, because there are genuine issues of material fact regarding whether Grant Creek acquired a depreciable interest in the water system.
2. Yes, because the question of Montana law is controlling in this litigation, there is

© 2025 SCOTUSreports.com. All rights reserved.

substantial ground for difference of opinion, and adjudication by the Montana Supreme Court will materially advance the termination of the case.

Court’s Reasoning

The court reasoned that the Commissioner failed to demonstrate that no genuine issue of material fact existed regarding Grant Creek’s entitlement to tax benefits. The court emphasized that taxation focuses on the actual command over property rather than legal title, citing *Corliss v. Bowers*. It also noted that the determination of whether a taxpayer has a depreciable interest depends on the transfer of the benefits and burdens of ownership, which involves factual issues to be resolved at trial. Regarding the certification, the court found that the validity of the county’s transfer under Montana law was a controlling issue with substantial grounds for disagreement, and resolving it would significantly advance the case’s resolution.

Practical Implications

This decision underscores the importance of determining the substance of property transfers for tax purposes, beyond mere legal formalities. It also highlights the utility of certification procedures for resolving pivotal state law questions in federal litigation. Practitioners should be aware that factual disputes over the benefits and burdens of ownership can preclude summary judgment in tax disputes. Additionally, this case illustrates how state law issues can impact federal tax cases, necessitating collaboration between federal and state courts. Subsequent cases may reference *Grant Creek* when addressing similar issues of property transfer validity and tax entitlement.

© 2025 SCOTUSreports.com. All rights reserved.