Arkansas Best Corp. v. Commissioner, 98 T. C. 628 (1992)

The processing of animal bones into gelatin bone qualifies as 'recycling equipment' under the investment tax credit provisions, despite regulations attempting to exclude animal waste.

Summary

Arkansas Best Corp. challenged the IRS's denial of an investment tax credit for its bone-processing equipment, arguing it qualified as 'recycling equipment' under section 48(1)(6). The Tax Court ruled in favor of Arkansas Best, holding that the IRS regulation excluding animal waste from the definition of 'solid waste' for recycling was invalid. The court found that animal bone processing met the statutory definition of recycling, as it transformed waste into usable raw materials, despite not producing a similar end-product. This decision broadened the scope of what qualifies as recycling for tax purposes and highlighted the importance of statutory interpretation over regulatory overreach.

Facts

Arkansas Best Corp. operated a facility that processed animal bones into gelatin bone, primarily sold to the photographic industry. This facility was constructed in response to the 'boxed-beef' fabrication method, which increased the volume of bones needing disposal. The IRS denied Arkansas Best's claim for an investment tax credit under section 48(1)(6), arguing that the equipment did not qualify as 'recycling equipment' because it processed animal waste, which was excluded by IRS regulations.

Procedural History

Arkansas Best filed a petition in the U. S. Tax Court challenging the IRS's deficiency determination of $138,340 for the taxable year ending February 29, 1980. The case was submitted fully stipulated under Tax Court Rule 122. The Tax Court, in a reviewed opinion, held in favor of Arkansas Best, invalidating the IRS regulation that excluded animal waste from the definition of 'solid waste' for recycling purposes.

Issue(s)

1. Whether the processing of animal bones into gelatin bone constitutes 'recycling' under section 48(1)(6)?
2. Whether the IRS regulation excluding animal waste from the definition of 'solid waste' for recycling purposes is valid?

Holding

1. Yes, because the transformation of animal bones into gelatin bone meets the statutory definition of recycling, as it involves the recovery of usable raw materials

© 2025 SCOTUSreports.com. All rights reserved.

from solid waste.
2. No, because the regulation's exclusion of animal waste from 'solid waste' for recycling purposes is inconsistent with the statute and its legislative history.

Court's Reasoning

The Tax Court's reasoning focused on the statutory language and legislative intent of section 48(1)(6). The court emphasized that the statute defines 'recycling equipment' broadly as equipment used to process or sort and prepare solid waste, without specifying that the end-product must be similar to the original waste material. The court rejected the IRS's narrow interpretation that recycling must result in a product similar to the original waste, citing the lack of such a requirement in the statute or legislative history. The court also invalidated the IRS regulation excluding animal waste from 'solid waste' for recycling, finding it inconsistent with the statutory definition of 'solid waste' and the legislative purpose of encouraging recycling to address environmental and conservation issues. The court noted that the regulation's differentiation between 'recovery equipment' and 'conversion equipment' regarding animal waste was unsupported by the statute or its legislative history. The decision was supported by a majority of the Tax Court judges, highlighting the broad consensus on the invalidity of the regulation.

Practical Implications

This decision has significant implications for the interpretation of tax credit provisions related to recycling. It clarifies that the transformation of animal waste into usable raw materials qualifies as recycling under section 48(1)(6), regardless of whether the end-product is similar to the original waste. This ruling may encourage businesses to invest in equipment for processing various types of waste, including animal waste, by making them eligible for investment tax credits. The decision also serves as a reminder to tax practitioners and businesses to scrutinize IRS regulations that may overstep statutory authority, as such regulations can be challenged and invalidated. Furthermore, this case may influence future legislative and regulatory efforts to define and incentivize recycling and environmental conservation initiatives.

© 2025 SCOTUSreports.com. All rights reserved.