Kraatz & Craig Surveying Inc. v. Commissioner, 134 T. C. 167 (U. S. Tax Court 2010)

In a significant ruling on the scope of engineering services for tax purposes, the U. S. Tax Court upheld that land surveying falls within the field of engineering, classifying Kraatz & Craig Surveying Inc. as a qualified personal service corporation subject to a flat 35% tax rate. This decision, based on legislative history and the ordinary meaning of engineering, overruled the taxpayer's contention that state licensing laws should define the field, impacting how professional service corporations are taxed.

Parties

Kraatz & Craig Surveying Inc. , the petitioner, was a corporation incorporated under Tennessee law. The Commissioner of Internal Revenue, the respondent, represented the U. S. government in this tax dispute. The case was litigated before the United States Tax Court.

Facts

Kraatz & Craig Surveying Inc. is a corporation based in Seymour, Tennessee, exclusively engaged in land surveying. It does not employ licensed engineers, nor is it associated with any firm that employs licensed engineers. Additionally, it does not provide services that require a licensed engineer under Tennessee law. The Internal Revenue Service (IRS) determined that the corporation's activities constituted services in the field of engineering, making it subject to a 35% flat corporate tax rate as a qualified personal service corporation.

Procedural History

The IRS issued a notice of deficiency to Kraatz & Craig Surveying Inc. , asserting a deficiency of $9,762 in federal income tax for the tax year ending December 31, 2005. The corporation filed a timely petition with the U. S. Tax Court, challenging the classification and the tax rate applied. The case was submitted fully stipulated under Tax Court Rule 122, leading to a decision without a trial.

Issue(s)

Whether land surveying performed by Kraatz & Craig Surveying Inc. constitutes a service in the field of engineering under Section 448(d)(2) of the Internal Revenue Code, thereby classifying the corporation as a qualified personal service corporation subject to a flat 35% income tax rate under Section 11(b)(2)?

Rule(s) of Law

Section 448(d)(2) of the Internal Revenue Code defines a qualified personal service corporation as one whose activities substantially involve services in specified fields,

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including engineering. Temporary Income Tax Regulation Section 1. 448-1T(e)(4)(i) explicitly includes surveying and mapping within the field of engineering. The court also considered the ordinary meaning of engineering and relevant legislative history in interpreting these provisions.

Holding

The U. S. Tax Court held that land surveying performed by Kraatz & Craig Surveying Inc. constitutes a service in the field of engineering under Section 448(d)(2) of the Internal Revenue Code. Consequently, the corporation was correctly classified as a qualified personal service corporation and subject to the 35% flat income tax rate under Section 11(b)(2).

Reasoning

The court's reasoning was based on multiple factors:

– **Legislative History**: The court noted that the legislative history of Section 448 explicitly included surveying and mapping within the field of engineering, reflecting Congress's intent.

– **Ordinary Meaning**: Dictionaries, such as Webster's Third New International Dictionary, define civil engineering as encompassing land surveying, which falls within the broader category of engineering.

– **Professional Recognition**: The American Society of Civil Engineers (ASCE) recognizes land surveying as part of civil engineering, further supporting the court's interpretation.

– **State Licensing Laws**: The court rejected the argument that state licensing laws should define the field of engineering for federal tax purposes, emphasizing that federal tax law aims for uniform application across states.

– **Regulatory Validity**: The court upheld the validity of the temporary regulation under both the National Muffler Dealers Association and Chevron U. S. A. Inc. standards, finding it a reasonable interpretation of the statute.

The court's decision was also influenced by the case of Rainbow Tax Serv. , Inc. v. Commissioner, which established that services within a qualifying field need not be limited to those requiring state licensure but should be assessed by all relevant indicia.

Disposition

The U. S. Tax Court affirmed the IRS's determination and entered an order and decision for the respondent, upholding the deficiency and the application of the 35% flat tax rate to Kraatz & Craig Surveying Inc.

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Significance/Impact

This case clarifies the scope of engineering services for tax purposes, affirming that land surveying is included within this field regardless of state licensing requirements. It has significant implications for how professional service corporations are classified and taxed, potentially affecting many corporations engaged in similar activities. The decision also reinforces the principle that federal tax law interpretations are not controlled by varying state laws, promoting uniformity in tax application across the United States.

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