Estate of Catherine E. Coon, Deceased, Frank J. Coon, Administrator, Petitioner v. Commissioner of Internal Revenue, Respondent, 81 T. C. 602, 1983 U. S. Tax Ct. LEXIS 32, 81 T. C. No. 32 (1983)

Material participation in the operation of farm property by the decedent or a family member is required for special use valuation under IRC section 2032A.

Summary

In Estate of Coon v. Commissioner, the court disallowed the estate's election for special use valuation of farm property under IRC section 2032A due to a lack of material participation by the decedent or her family. Catherine E. Coon's brother, Frank J. Coon, managed the farmland as an agent but did not meet the criteria for material participation set by the regulations. The court emphasized the need for regular advice or consultation on operations, inspection of production activities, and significant financial involvement. This case highlights the stringent requirements for qualifying for special use valuation and its impact on estate planning for farm properties.

Facts

Catherine E. Coon died intestate in 1977, leaving a one-third interest in farmland operated under crop-share leases by tenants. Her brother, Frank J. Coon, managed the property as an attorney-in-fact since 1951. The farmland was divided into three farms, each leased to different tenants. Frank maintained financial records, discussed crop plans annually, and inspected the farms occasionally. However, he did not participate in day-to-day production decisions or provide significant machinery. The estate elected special use valuation under IRC section 2032A, but the Commissioner disallowed it, arguing a lack of material participation by the decedent or her family.

Procedural History

The Commissioner issued a statutory notice of deficiency in 1980, asserting a $98,916. 30 estate tax deficiency. The estate filed a petition with the United States Tax Court, contesting the disallowance of the special use valuation election. After concessions, the sole issue before the court was whether there was material participation in the farm's operation as required by IRC section 2032A(e)(6).

Issue(s)

1. Whether during the 8-year period ending on the date of the decedent's death, there were periods aggregating 5 or more years during which the decedent or a member of her family materially participated in the operation of the farm property within the meaning of IRC section 2032A(e)(6).

Holding

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1. No, because neither the decedent nor a member of her family met the criteria for material participation set forth in the regulations under IRC section 2032A and section 1402(a)(1).

Court's Reasoning

The court applied the regulations under IRC section 2032A, which require material participation similar to that under section 1402(a)(1). It evaluated Frank Coon's involvement against factors such as regular advice or consultation on operations, inspection of production activities, financial responsibility, and provision of machinery. The court found that Frank's activities did not meet these criteria: he did not regularly advise on operations, his inspections did not constitute inspection of production activities, and he provided minimal machinery. The court also considered the legislative history of amendments to section 2032A, which introduced a lesser standard of "active management" for certain heirs, underscoring the higher threshold of material participation required for the decedent's estate. The court concluded that the estate did not qualify for special use valuation due to the lack of material participation.

Practical Implications

This decision underscores the strict criteria for material participation required for special use valuation under IRC section 2032A. Estate planners and attorneys must ensure that clients engaged in farming or similar businesses actively participate in the operation of their property to qualify for tax relief. This case may influence how estates are structured and managed to meet these requirements, potentially affecting estate planning strategies for farm properties. It also highlights the importance of documenting participation and understanding the distinction between active management and material participation, especially in light of subsequent legislative changes. Subsequent cases may reference Estate of Coon when interpreting and applying the material participation requirements of section 2032A.

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