Estate of H. Floyd Sherrod, H. Floyd Sherrod, Jr. , and Estalee Sherrod Sandlin, Coexecutors, Petitioner v. Commissioner of Internal Revenue, Respondent, 82 T. C. 523 (1984)

Timber land can qualify for special use valuation under IRC § 2032A if it is part of an active farm business and managed for timber production.

Summary

The Estate of H. Floyd Sherrod sought special use valuation for 1,478 acres of land, which included timber, cropland, and pasture. The court determined that the entire acreage qualified under IRC § 2032A as part of an active farm business managed by the decedent and later by his son, the trustee. The land was used primarily for timber, with other portions leased for crops and pasture, all managed as a single unit. The court also held that it lacked jurisdiction to review the Commissioner's decision on the estate's eligibility for installment payment of estate taxes under IRC §§ 6166 and 6166A.

Facts

H. Floyd Sherrod owned 1,478 acres of land in Alabama, comprising 1,108 acres of timberland, 270 acres of cropland, and 100 acres of pasture. He managed the land until 1972, when he placed it in a revocable trust with his son and daughter as trustees. After Sherrod's death in 1977, his son managed the land, continuing the same practices. The timber was naturally forested, with selective cuttings in 1940-41 and 1960-61. The cropland and some pasture were leased annually for fixed rents, while some pasture remained unused due to its poor quality.

Procedural History

The estate filed a federal estate tax return claiming special use valuation under IRC § 2032A and elected to pay the tax in installments. The Commissioner issued a notice of deficiency denying both claims. The estate petitioned the Tax Court, which ruled that the land qualified for special use valuation but lacked jurisdiction over the installment payment issue.

Issue(s)

1. Whether the 1,478 acres of land qualified for special use valuation under IRC § 2032A?
2. Whether the Tax Court had jurisdiction to review the Commissioner's determination that the estate did not qualify for installment payment of estate taxes under IRC §§ 6166 and 6166A?
3. If the Tax Court had jurisdiction, whether the estate qualified for installment payment of estate taxes under IRC §§ 6166 and 6166A?

Holding

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1. Yes, because the entire acreage was part of an active farm business managed by the decedent and his son, satisfying the requirements of IRC § 2032A.
2. No, because the Tax Court's jurisdiction does not extend to the Commissioner's determination on installment payments, as it does not involve a deficiency.
3. Not applicable, as the Tax Court lacked jurisdiction over this issue.

Court's Reasoning

The court applied IRC § 2032A, which allows special use valuation for property used in farming or other qualified businesses. The court found that the decedent and his son actively managed the timberland, cropland, and pasture as a single unit, with activities consistent with good land management practices. This included regular inspections, negotiations with tenants, and protection against threats to the timber. The court rejected the Commissioner's argument that the land should be valued separately, emphasizing the integrated management approach. The court also noted that the decedent's and his son's activities constituted material participation in an active business, not merely passive investment. Regarding jurisdiction over installment payments, the court cited its statutory limitations and the absence of a deficiency as reasons for its lack of authority to review the Commissioner's determination.

Practical Implications

This decision clarifies that timber land can qualify for special use valuation if it is part of an active farm business, even if managed by a trustee or leased out for other uses. It emphasizes the importance of demonstrating active management and material participation in the business. For legal practitioners, it highlights the need to carefully document management activities to support special use valuation claims. The ruling also underscores the Tax Court's jurisdictional limits, reminding attorneys to consider alternative forums for disputes over installment payment elections. Subsequent cases have cited Sherrod to support special use valuation for similar properties, reinforcing its impact on estate tax planning for agricultural and timber estates.

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