Grynberg v. Commissioner, 83 T. C. 255 (1984)

The doctrine of election precludes taxpayers from revoking elections made on their tax returns, and prepayments of expenses must be ordinary and necessary to be deductible in the year paid.

Summary

In Grynberg v. Commissioner, the taxpayers attempted to revoke their charitable contribution elections after the IRS made adjustments to their income, and they sought to deduct prepayments of delay rental on oil and gas leases. The Tax Court held that under the doctrine of election, the taxpayers could not revoke their prior elections as these were binding choices made on their returns. Additionally, the court found that the prepayments of delay rental were not ordinary and necessary expenses of the year in which they were made, following the precedent set in Williamson v. Commissioner. The decision underscores the importance of the timing and irrevocability of tax elections and the criteria for deductibility of prepayments.

Facts

Jack J. Grynberg and Celeste Grynberg made charitable contribution elections under I. R. C. § 170(b)(1)(D)(iii) on their 1974 and 1975 tax returns. After the IRS made adjustments to their income for unrelated items, they attempted to revoke these elections. The Grynbergs also owned oil and gas leases and made prepayments of delay rental in December for the following February and March. They claimed these prepayments as deductions in the year paid.

Procedural History

The Grynbergs filed a petition with the U. S. Tax Court after receiving a notice of deficiency from the IRS. The Tax Court consolidated the cases and ruled on the issues of the revocation of the charitable contribution elections and the deductibility of the prepayments of delay rental.

Issue(s)

1. Whether the taxpayers can revoke their elections under I. R. C. § 170(b)(1)(D)(iii) for 1974 and 1975 regarding their charitable contributions of capital gain property.
2. Whether the taxpayers' deductions for advance payments of delay rental on oil and gas leases were proper.

Holding

1. No, because the doctrine of election precludes taxpayers from revoking elections made on their tax returns.
2. No, because the prepayments of delay rental were not ordinary and necessary expenses of the years in which they were made.

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Court’s Reasoning

The court applied the doctrine of election, which requires a free choice between alternatives and an overt act manifesting that choice to the Commissioner. The Grynbergs had chosen to calculate their charitable deductions under § 170(b)(1)(D)(iii) and claimed the benefit thereof on their returns, making their elections binding. The court rejected the argument that a mistake of fact occurred due to IRS adjustments, as these adjustments were unrelated to the charitable contributions. Regarding the prepayments of delay rental, the court followed Williamson v. Commissioner, finding that the prepayments did not constitute ordinary and necessary business expenses in the year paid because no business reason justified prepaying 60 to 90 days in advance. The court emphasized that the general practice of making payments one month in advance would have sufficed to secure the leases.

Practical Implications

This decision reinforces the principle that tax elections are irrevocable once made and communicated on a tax return, affecting how taxpayers approach their tax planning. It also clarifies that for cash method taxpayers, prepayments must have a substantial business purpose to be deductible in the year paid, impacting the timing of deductions for expenses like delay rental in the oil and gas industry. Practitioners should advise clients to carefully consider their elections and the timing of expenses, as these decisions can have lasting tax implications. Subsequent cases have cited Grynberg in upholding the doctrine of election and assessing the deductibility of prepayments.

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