Warfield v. Commissioner, 88 T. C. 187 (1987)

The alternative minimum tax applies to capital gains from the sale of farmland development rights, unaffected by the Farmland Protection Policy Act.

Summary

In Warfield v. Commissioner, the Tax Court ruled that the alternative minimum tax (AMT) under section 55 of the Internal Revenue Code applies to capital gains from the sale of farmland development rights, even when such rights are sold under a state farmland protection program. The court rejected the petitioners' argument that the Farmland Protection Policy Act precluded the AMT's application. The court emphasized the unambiguous nature of section 55 and found no evidence in the Farmland Protection Policy Act's legislative history suggesting an intent to exempt these gains from the AMT. This decision underscores the importance of adhering to the clear language of tax statutes and the limited impact of subsequent non-tax legislation on existing tax laws.

Facts

In 1955, Albert G. Warfield III inherited 229. 88 acres of farmland in Maryland with a basis of $56,320. 60. In 1980, he sold the development rights to this land to the Maryland Agricultural Land Preservation Foundation, receiving $75,000 in 1980 and $223,850 in 1981. On their 1981 tax return, the Warfields reported the full amount received in 1981 as long-term capital gain but did not pay any alternative minimum tax (AMT), asserting that the Farmland Protection Policy Act exempted such gains from AMT.

Procedural History

The IRS determined a deficiency of $10,151 in the Warfields' 1981 federal income taxes and an addition for negligence, which was later conceded. The Warfields petitioned the Tax Court, challenging the application of the AMT to their capital gains from the sale of farmland development rights.

Issue(s)

1. Whether the Farmland Protection Policy Act precludes the application of the alternative minimum tax to capital gains derived from the transfer of farmland development rights?

Holding

1. No, because the unambiguous language of section 55 of the Internal Revenue Code and the lack of evidence in the legislative history of the Farmland Protection Policy Act support the continued application of the AMT to such gains.

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Court’s Reasoning

The court relied on the clear language of section 55, which imposes the AMT on certain capital gains, including those from the sale of farmland development rights. The Warfields argued that the Farmland Protection Policy Act should exempt their gains from the AMT, but the court found no express provision or legislative intent to support this claim. The court cited Huntsberry v. Commissioner, emphasizing the need for unequivocal evidence of legislative purpose to override the plain meaning of tax statutes. The court also noted that the Farmland Protection Policy Act did not become effective until after the year in question, further undermining the Warfields’ argument. The court rejected other arguments by the Warfields, such as the substantial regular tax they paid and the nature of the transaction as a one-time deal, as irrelevant to the application of the AMT.

Practical Implications

This decision clarifies that the AMT applies to capital gains from the sale of farmland development rights, regardless of state farmland protection programs. Tax practitioners must advise clients that non-tax legislation like the Farmland Protection Policy Act does not automatically alter existing tax laws. This ruling may affect how landowners structure transactions involving development rights, as they cannot rely on such programs to avoid the AMT. The decision also reinforces the principle that courts will not rewrite tax statutes based on perceived inequities or policy considerations unless Congress explicitly provides for exceptions or exemptions.

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