Estate of Rebecca Ward, Deceased, Floral Emerson and Reba Harris, Cotrustees and Coexecutrices v. Commissioner of Internal Revenue, 89 T. C. 54, 1987 U. S. Tax Ct. LEXIS 95, 89 T. C. No. 6 (1987)

A decedent's estate may qualify for special use valuation if the decedent materially participated in the operation of a farm under a sharecropping arrangement.

Summary

In Estate of Ward, the U. S. Tax Court ruled that Rebecca Ward materially participated in her farm's operation under a sharecropping arrangement, allowing her estate to elect special use valuation under IRC Section 2032A. The court found Ward's regular consultation with the sharecropper, inspection of the farm, and independent decision-making in crop harvesting and marketing sufficient to meet the material participation requirement. This case clarifies that material participation can be established even in modern, mechanized farming operations where the decedent does not physically operate the machinery.

Facts

Rebecca Ward owned a 118-acre farm in Indiana, which she operated under an oral sharecropping arrangement with Milton Barrett. Ward provided the land, while Barrett provided equipment and labor. They shared equally in the expenses and income from the grain farming operation, which included corn, soybeans, and wheat. Ward lived on the farm, inspected the fields regularly, and made independent decisions regarding the timing of crop harvesting and marketing. She was financially responsible for certain farm expenses and maintained her own books, although she did not initially report or pay self-employment tax on her farm income.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Ward's estate tax, denying the estate's election of special use valuation under IRC Section 2032A due to lack of material participation. The estate petitioned the U. S. Tax Court, which held in favor of the estate, allowing the special use valuation election.

Issue(s)

1. Whether Rebecca Ward materially participated in the operation of her farm within the meaning of IRC Section 2032A(b)(1)(C)(ii), allowing her estate to elect special use valuation.

Holding

1. Yes, because Ward's regular consultation with the sharecropper, inspection of the farm, and independent decision-making in crop harvesting and marketing constituted material participation under the applicable regulations.

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Court’s Reasoning

The court applied the material participation requirements of IRC Section 2032A and the related regulations, which are similar to those for self-employment tax under Section 1402(a). The court considered Ward’s activities in light of the mechanized nature of the grain farming operation and the common use of sharecropping in the area. Key factors included Ward’s regular advice and consultation with Barrett, her regular inspection of the farm, her financial responsibility for certain expenses, and her independent decision-making in harvesting and marketing her share of the crops. The court distinguished this case from Estate of Coon, where the decedent did not live on the farm or make independent decisions. The court also noted that Ward’s lack of formal education in farming did not undermine her decades of practical experience.

Practical Implications

This decision clarifies that material participation for special use valuation can be established in modern farming operations, even when the decedent does not physically operate the machinery. It emphasizes the importance of regular consultation, inspection, and independent decision-making in sharecropping arrangements. Practitioners should consider these factors when advising clients on estate planning for family farms. The ruling may encourage more estates to elect special use valuation, potentially reducing estate tax liability and facilitating the continuation of family farming operations. Subsequent cases have applied this reasoning to similar sharecropping arrangements, while distinguishing cases where the decedent’s involvement was more limited.

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