Estate of Pauline E. Strickland, Deceased, Della Rose Schwartz, Personal Representative, Petitioner v. Commissioner of Internal Revenue, Respondent, 92 T. C. 16 (1989)

Substantial compliance with regulations is required to elect special use valuation under section 2032A, including proper documentation of the method used to determine special use value.

Summary

The Estate of Pauline E. Strickland attempted to elect special use valuation under section 2032A for farmland included in the estate. The estate timely filed an amended Federal estate tax return with a notice of election but failed to provide the required documentation to substantiate the special use value based on the capitalization of rents method. The Tax Court held that the estate did not substantially comply with the regulations because it did not identify comparable property and provide the necessary rental and tax information for the requisite five-year period. Consequently, the estate was not entitled to special use valuation, and the farmland had to be valued at its fair market value on the date of the decedent's death.

Facts

Pauline E. Strickland died on January 3, 1982, owning seven tracts of land used for farming. The estate timely filed a Federal estate tax return on September 8, 1982, and an amended return on October 4, 1982, electing special use valuation for five of the tracts under section 2032A. The notice of election submitted with the amended return did not contain all the required information, particularly regarding the method used to determine the special use value. The estate provided some documentation, but it was insufficient and related to periods after the decedent's death. The Commissioner disallowed the election due to the lack of proper documentation.

Procedural History

The estate timely filed a Federal estate tax return and an amended return electing special use valuation. After the Commissioner disallowed the election, the estate petitioned the United States Tax Court for a redetermination of the deficiency. The Tax Court heard the case and issued its opinion on January 10, 1989, as amended on January 18, 1989.

Issue(s)

1. Whether the estate substantially complied with the regulations under section 2032A(d)(3)(B) in attempting to elect special use valuation.

Holding

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1. No, because the estate failed to provide the required information and documentation to substantiate the special use value based on use as prescribed by section 2032A(e)(7)(A) and the corresponding regulations.

Court's Reasoning

The Tax Court analyzed the requirements for electing special use valuation under section 2032A, focusing on the necessity of substantial compliance with the regulations. The court noted that the estate must provide 14 items of information in the notice of election, including the method used to determine the special use value. The estate elected the capitalization of rents method but failed to identify comparable property and provide the necessary annual gross cash rentals and tax information for the five years preceding the decedent's death. The court found that the omission of this essential information was not a minor technical mistake but related to the substance of the statute, thus failing to meet the substantial compliance standard. The court also rejected the estate's argument that it could switch to the net share rental method, as evidence showed the existence of comparable land from which gross cash rentals could be determined.

Practical Implications

This decision underscores the importance of strict adherence to the documentation requirements for electing special use valuation under section 2032A. Estates must ensure they provide all necessary information, particularly regarding the method used to determine special use value, to avoid disallowance of the election. Practitioners should advise clients to gather and submit comprehensive documentation, including data on comparable properties and rental values for the requisite period, to secure the benefits of special use valuation. This case may influence how estates approach the election process, emphasizing the need for thorough preparation and attention to detail. Subsequent cases, such as Estate of Killion v. Commissioner, have continued to emphasize the need for substantial compliance in similar contexts.

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