Estate of Frances E. Wherry Maddox, Deceased, Joseph C. Maddox, and Margaret E. Lale, Coexecutors, Petitioner v. Commissioner of Internal Revenue, Respondent, 93 T. C. 228; 1989 U. S. Tax Ct. LEXIS 117; 93 T. C. No. 21 (1989)

Section 2032A special use valuation applies to corporate stock in a family farm corporation, but does not allow for a minority interest discount after the special use valuation has been applied.

Summary

Frances E. Wherry Maddox owned a 35. 5% interest in Maddox Farms, Inc. , a family farm corporation. Upon her death, the estate sought to apply Section 2032A special use valuation to the farm's real estate, which significantly reduced its value. The estate then argued for an additional 30% minority interest discount on the value of the decedent's shares. The Tax Court held that while Section 2032A applies to corporate stock in a family farm, the resulting value is not the "fair market value" and thus no further minority interest discount is applicable. The court reasoned that applying such a discount would place corporate shareholders in a more favorable position than owners of unincorporated farms, which was not Congress's intent.

Facts

Frances E. Wherry Maddox died on May 1, 1983, holding a 35. 5% interest in Maddox Farms, Inc. , with her husband Clarence C. Maddox owning a slightly larger share. Upon incorporation in 1973, the farm's assets included cash, equipment, and real property. The estate filed a timely estate tax return, initially valuing the decedent's shares based on a buy/sell agreement, but later sought to apply Section 2032A special use valuation to the farm's real property. The estate and the Commissioner agreed on the applicability of Section 2032A and the resulting reduced value of the real estate, but disagreed on whether a 30% minority interest discount should further reduce the value of the decedent's shares.

Procedural History

The estate timely filed a Federal estate tax return and made a protective election for Section 2032A valuation. The Commissioner issued a notice of deficiency, valuing the decedent's shares at their fair market value without the special use valuation. The estate petitioned the U. S. Tax Court, which heard the case on a stipulated record. The Tax Court issued its decision on August 10, 1989.

Issue(s)

1. Whether Section 2032A special use valuation applies to the value of corporate stock in a family farm corporation.
2. Whether a minority interest discount applies to the value of corporate stock after the application of Section 2032A special use valuation.

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Holding

1. Yes, because Section 2032A(g) mandates the application of Section 2032A to stock in a closely held business, including a family farm corporation, even in the absence of regulations.
2. No, because the value of the stock after applying Section 2032A is not the “fair market value” and thus a minority interest discount is inapplicable.

Court’s Reasoning

The court applied Section 2032A(g), which directs the Secretary to issue regulations applying Section 2032A to interests in corporations. Despite the absence of such regulations, the court interpreted the statute to extend the special use valuation to corporate stock in family farms. The court emphasized Congress’s intent to prevent the forced sale of family farms by reducing estate tax burdens, which Section 2032A aims to achieve. However, the court rejected the estate’s argument for a further minority interest discount, reasoning that the value after applying Section 2032A is not the “fair market value” of the stock. The court noted that allowing such a discount would place corporate shareholders in a more favorable position than owners of unincorporated farms, which Congress did not intend. The court’s decision was reinforced by the heirs’ agreement to pay recapture taxes if the farm’s use changed, indicating the special nature of the stock.

Practical Implications

This decision clarifies that while Section 2032A special use valuation can be applied to corporate stock in a family farm, no further minority interest discount is allowed after the special valuation. Practitioners advising estates with corporate interests in family farms must consider this ruling when valuing stock for estate tax purposes. The decision may influence how estates structure their assets to minimize tax liability, potentially encouraging unincorporated structures to retain the possibility of a minority interest discount. Future cases involving Section 2032A and corporate stock may cite this case to argue against the application of additional valuation discounts after special use valuation. The ruling also highlights the need for the Treasury to issue regulations as mandated by Section 2032A(g) to provide clarity in this area.

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