Estate of William Hubberd, Deceased, Blackstone Dilworth, Jr. , Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 99 T. C. 335, 1992 U. S. Tax Ct. LEXIS 72, 99 T. C. No. 18 (1992)

Estates are subject to net worth limits when seeking litigation cost awards under 26 U. S. C. § 7430, and the estate's net worth, not that of its executor or beneficiaries, is considered.

Summary

In Estate of Hubberd v. Commissioner, the U. S. Tax Court addressed the eligibility of estates for litigation cost awards under 26 U. S. C. § 7430. The estate of William Hubberd, after settling a tax deficiency case with the IRS, sought to recover litigation costs. The court held that estates are eligible for such awards but must meet the net worth requirements of 28 U. S. C. § 2412(d)(2)(B). The estate's net worth, valued at over $19 million at the decedent's death, was the relevant figure, not the net worth of the executor or beneficiaries. The estate failed to provide evidence of its net worth at the time the petition was filed, leading to the denial of the cost award.

Facts

William Hubberd died on May 13, 1986, leaving an estate valued at $19,645,018 on that date and $18,032,097 on the alternate valuation date of November 13, 1986. The IRS determined a $5,183,949. 58 estate tax deficiency, prompting the estate to file a petition with the U. S. Tax Court on April 12, 1990. The case settled before trial with a reduced tax liability of $2,429,500. The estate then moved for litigation costs under 26 U. S. C. § 7430, but did not provide evidence of its net worth at the time the petition was filed.

Procedural History

The IRS determined an estate tax deficiency, leading the estate to file a petition with the U. S. Tax Court. The case was settled before trial, and the estate subsequently moved for an award of litigation costs. The court held a hearing on the motion, considering affidavits and memoranda from both parties. The court ultimately denied the estate's motion due to its failure to meet the net worth requirements.

Issue(s)

1. Whether an estate is a "party" eligible for an award of litigation costs under 26 U. S. C. § 7430.
2. Whether the net worth requirements of 28 U. S. C. § 2412(d)(2)(B) apply to an estate seeking litigation costs.
3. Whether the net worth of the estate, executor, or beneficiaries is considered when applying the net worth limits of 28 U. S. C. § 2412(d)(2)(B).
4. Whether the estate met the net worth requirements at the time the petition was

filed.

Holding

1. Yes, because an estate can be taxed, earn income, sue, and be sued, making it a party eligible for litigation cost awards.
2. Yes, because Congress intended taxpayers to meet net worth limits as a condition for receiving litigation cost awards.
3. The estate's net worth is considered, not that of the executor or beneficiaries, as the estate is the entity responsible for litigation costs.
4. No, because the estate failed to provide evidence of its net worth at the time the petition was filed.

Court's Reasoning

The court reasoned that estates, while not explicitly mentioned in 28 U. S. C. § 2412(d)(2)(B), are subject to the net worth limits based on prior case law and the intent of Congress to limit litigation cost awards to parties meeting certain financial criteria. The court rejected the estate's argument that the net worth of its beneficiaries should be considered, emphasizing that the estate itself is the party in the litigation and responsible for its costs. The court relied on cases such as *Boatmen's First National Bank v. United States* and *Papson v. United States*, which established that an estate's net worth is the relevant measure. The estate's failure to provide evidence of its net worth at the time of filing the petition was fatal to its claim for costs, as the burden of proof lay with the estate.

Practical Implications

This decision clarifies that estates seeking litigation cost awards under 26 U. S. C. § 7430 must meet the net worth requirements of 28 U. S. C. § 2412(d)(2)(B), and their own net worth is the relevant figure. Practitioners representing estates in tax disputes must be prepared to provide evidence of the estate's net worth at the time the petition is filed. The ruling may deter estates with substantial net worth from pursuing litigation cost awards, as they are unlikely to meet the statutory limits. Subsequent legislation, such as the Revenue Bill of 1992, has further clarified that estates are subject to the $2 million net worth limit applicable to individuals, with the estate's value determined at the decedent's date of death. This case has been cited in later decisions involving estates and litigation costs, reinforcing its impact on estate tax practice.