Estate of Kenneth R. Mapes, Deceased, Dyanne K. Miller and Donald R. Mapes, Co-Executors, Petitioner v. Commissioner of Internal Revenue, Respondent, 99 T. C. 511 (1992)

Cash in a bank account can be considered as part of a farm's assets for special use valuation purposes only if it is shown to be working capital actively used in the farming operation at the time of the decedent's death.

Summary

The Estate of Kenneth R. Mapes sought to elect special use valuation under IRC § 2032A for farmland and to use the alternate valuation method under IRC § 2032 as a fallback. The Tax Court denied the special use valuation because the estate failed to prove that 50% or more of the estate's adjusted value was used in farming, particularly regarding the cash in the decedent's bank account. The court found that the cash was not sufficiently shown to be working capital for the farm, thus not meeting the 50% test. However, the court upheld the protective election for alternate valuation under IRC § 2032, allowing the estate to use the lower valuation six months after death.

Facts

Kenneth R. Mapes died owning three tracts of farmland in Illinois, which he leased to a tenant farmer under a 50% share rental arrangement. He owned grain from the prior year and had a bank account used for both farm and personal expenses. The estate filed a timely tax return electing special use valuation under IRC § 2032A for the farmland and included a protective election for alternate valuation under IRC § 2032. The IRS challenged the estate's eligibility for special use valuation, arguing that the estate did not meet the 50% test under IRC § 2032A(b)(1)(A) because it could not prove that the cash in the bank account was used for farming purposes.

Procedural History

The estate filed a timely estate tax return electing special use valuation for the farmland and included a protective election for alternate valuation. The IRS issued a notice of deficiency, disallowing the special use valuation and denying the validity of the protective election for alternate valuation. The estate then petitioned the U. S. Tax Court, which heard the case and issued its decision on October 29, 1992.

Issue(s)

1. Whether the estate was entitled to elect special use valuation under IRC § 2032A, specifically whether the cash in the decedent's bank account should be considered as part of the farm's assets for the 50% test under IRC § 2032A(b)(1)(A).
2. Whether the estate made a valid protective election to use the alternate valuation method under IRC § 2032.

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Holding

1. No, because the estate failed to prove that the cash in the bank account constituted working capital actively used in the farming operation, thus failing to meet the 50% test under IRC § 2032A(b)(1)(A).
2. Yes, because the estate's protective election to use the alternate valuation method under IRC § 2032 was valid and effective.

Court's Reasoning

The court analyzed the estate's eligibility for special use valuation under IRC § 2032A, focusing on the 50% test that requires at least 50% of the adjusted value of the gross estate to consist of assets used for farming. The court emphasized that only assets actively used for farming at the time of death could be considered. The estate argued that the entire bank account balance should be considered as working capital for the farm, but the court rejected this view, finding that the estate failed to prove the necessary connection between the cash and the farming operation. The court also considered the estate's alternative argument based on a hypothetical custom farming arrangement, but found this irrelevant to the actual use of the farm at the time of death. Regarding the alternate valuation method under IRC § 2032, the court upheld the validity of the estate's protective election, noting that there was no authority prohibiting such an election and that it was made within the required timeframe.

Practical Implications

This decision clarifies that for special use valuation under IRC § 2032A, only assets actively used in the farming operation at the time of death can be considered, including cash in bank accounts only if it is shown to be working capital for the farm. This ruling impacts how estates with mixed-use assets should be analyzed, requiring clear evidence linking cash reserves to farming activities. For legal practitioners, it emphasizes the need for thorough documentation and evidence of farm-related use of assets. The decision also reaffirms the validity of protective elections for alternate valuation under IRC § 2032, providing estates with a fallback option when special use valuation is contested. Subsequent cases have referenced this decision in determining the eligibility of assets for special use valuation, reinforcing the requirement for direct and active use in farming operations.

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