Robarts v. Commissioner, 103 T. C. 72 (1994)

A taxpayer's election under section 121 to exclude gain from the sale of a residence is irrevocable after the statutory period for revocation has expired.

Summary

Mary Robarts sold her home in 1979 and elected to exclude the gain under section 121, unaware that this would preclude a similar exclusion in 1988 when she sold her subsequent residence. The Tax Court held that her 1979 election was valid and could not be revoked after the statutory three-year period had passed, despite her argument that section 1034 should have been used instead. The decision underscores the finality of tax elections and the strict adherence to statutory deadlines for revocation, emphasizing the importance of careful tax planning and the potential consequences of relying solely on tax preparers.

Facts

Mary K. Robarts sold her residence at 3208 Chapin Avenue, Tampa, Florida, in 1979 for $36,000, realizing a gain of $7,320. 77. Prior to this sale, she had purchased a new residence at 5219 Crescent Drive, Tampa, Florida, in 1978 for $48,500, which included a single-family house and a duplex. On her 1979 tax return, prepared by her CPA, she elected to exclude the gain from the sale of the Chapin property under section 121, which allows a one-time exclusion of up to $125,000 of gain from the sale of a principal residence for individuals aged 55 or older. In 1988, she sold the Crescent property for $165,000, realizing a gain of $112,363, and attempted to exclude this gain under section 121 as well. The Commissioner disallowed the 1988 exclusion, citing the prior election in 1979.

Procedural History

Robarts filed a petition with the U. S. Tax Court challenging the Commissioner's disallowance of her 1988 section 121 election. Both parties filed cross-motions for summary judgment. The Tax Court granted the Commissioner's motion and denied Robarts' motion, upholding the disallowance of the 1988 exclusion.

Issue(s)

1. Whether Robarts' 1979 election to exclude gain under section 121 was valid despite the availability of section 1034.
2. Whether Robarts could revoke her 1979 section 121 election after the statutory period for revocation had expired.

Holding

1. Yes, because the election was valid under the statute and regulations, and section 1034's mandatory deferral did not preclude the section 121 election.

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2. No, because the statutory period for revoking the 1979 election had expired, and the court lacked authority to permit a late revocation.

Court’s Reasoning

The court analyzed that section 121 allowed for the exclusion of gain from the sale of a principal residence, and Robarts’ 1979 election was valid under this section. The court clarified that section 1034, which mandates the deferral of gain, did not preclude the use of section 121. The court also noted that section 121(c) provided a three-year period from the filing of the return to revoke the election, which had expired by the time Robarts attempted to revoke it in 1988. The court rejected Robarts’ argument that it could correct the 1979 return under section 6214(b), as this section did not empower the court to allow the revocation of an election outside the statutory period. The court emphasized the irrevocability of tax elections once the statutory period for revocation has passed, highlighting the importance of timely and informed decision-making in tax matters. The court also addressed Robarts’ reliance on her tax preparer, stating that such reliance did not excuse her from meeting statutory deadlines.

Practical Implications

This decision underscores the importance of understanding and carefully considering tax elections, as they can have significant long-term implications. Taxpayers must be aware of the statutory deadlines for revoking elections and cannot rely solely on tax preparers without understanding the choices made on their behalf. The ruling also affects how tax practitioners advise clients on the use of sections 121 and 1034, emphasizing the need for thorough analysis of the client’s current and potential future circumstances. For subsequent cases, this decision reinforces the finality of tax elections and the strict adherence to statutory deadlines, potentially impacting how courts view requests for relief from untimely revocations of elections.

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