103 T.C. 525 (1994)

Taxpayers are held to a duty of consistency and cannot contradict prior representations made to the IRS to gain tax benefits after the statute of limitations has expired on the initial tax year.

Summary

In *LeFever v. Commissioner*, the United States Tax Court addressed whether heirs who initially elected special use valuation for farmland on an estate tax return could later challenge the validity of that election to avoid additional estate tax. The heirs had cash-rented the farmland, which constitutes a cessation of qualified use under Section 2032A. The court held that the heirs were estopped by the duty of consistency. Having represented the property as qualified for special use valuation and benefited from reduced estate taxes, they could not later claim the election was invalid to escape recapture taxes when they ceased qualified use. This case underscores the binding nature of tax positions and the application of the duty of consistency doctrine in tax law.

Facts

Blanche Knollenberg died in 1983, owning several parcels of farmland. Her estate, with William LeFever as executor and Betty Lou LeFever as an heir, elected special use valuation under Section 2032A for five of the six parcels on the estate tax return, significantly reducing the estate tax liability. As required for the election, the heirs signed agreements consenting to personal liability for additional estate tax if the qualified use ceased. The IRS accepted the return as filed, and the statute of limitations for the estate tax return expired. Subsequently, the heirs cash-rented portions of the farmland to non-family members, a non-qualified use. The IRS issued notices of deficiency for additional estate tax due to cessation of qualified use. The heirs then argued that the special use valuation election was invalid from the outset because the farmland allegedly did not meet the requirements for qualified real property at the time of decedent's death.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in additional Federal estate tax against William and Betty Lou LeFever. The Lefever's petitioned the Tax Court contesting the deficiency. The Tax Court upheld the Commissioner's determination, finding for the respondent regarding the deficiency amount for William LeFever and a reduced amount for Betty Lou LeFever, and for the petitioners regarding additions to tax.

Issue(s)

1. Whether petitioners are estopped by the duty of consistency from denying that the farmland was qualified real property and challenging the validity of the

special use valuation election.
2. Whether the cash rental of the farmland constituted a cessation of qualified use under Section 2032A(c).
3. Whether the statute of limitations bars the assessment of additional estate tax.

Holding

1. Yes, because petitioners made representations that the farmland was qualified real property to secure a reduced estate tax and are now estopped from taking a contrary position after the statute of limitations has run on the estate tax return.
2. Yes, because cash rental of farmland by qualified heirs (other than a surviving spouse to a family member) is not a qualified use and constitutes a cessation of qualified use under Section 2032A(c).
3. No, because the period of limitations for assessing additional estate tax under Section 2032A(f) does not expire until three years after the Secretary is notified of the cessation of qualified use, and the notice was timely.

Court's Reasoning

The Tax Court applied the duty of consistency doctrine, stating, "The 'duty of consistency' is based on the theory that the taxpayer owes the Commissioner the duty to be consistent with his tax treatment of items and will not be permitted to benefit from his own prior error or omission." The court found that petitioners had represented the farmland as qualified real property, the IRS relied on this representation, and petitioners benefited from a reduced estate tax. The court quoted *Beltzer v. United States*, stating a taxpayer is under a duty of consistency when: "(1) the taxpayer has made a representation or reported an item for tax purposes in one year, (2) the Commissioner has acquiesced in or relied on that fact for that year, and (3) the taxpayer desires to change the representation, previously made, in a later year after the statute of limitations on assessments bars adjustments for the initial year." The court determined all three prongs were met. Regarding cessation of qualified use, the court noted that cash renting is not a qualified use, except under specific exceptions not applicable here. Finally, the court held that the statute of limitations was open under Section 2032A(f) because the IRS was notified of the cessation of qualified use within three years of issuing the deficiency notice.

Practical Implications

LeFever v. Commissioner serves as a critical reminder of the duty of consistency in tax law. It highlights that taxpayers cannot make representations to the IRS to gain tax advantages and then later contradict those representations once the statute of limitations has closed to avoid subsequent tax liabilities. For estate planning and administration, this case emphasizes the importance of thoroughly verifying eligibility for special use valuation under Section 2032A before making the election.

Legal professionals should advise clients that once a special use valuation election is made and accepted, it carries significant long-term obligations, including the requirement to maintain qualified use. Cash renting farmland by heirs (other than a surviving spouse in specific circumstances) will trigger recapture tax. Furthermore, the case clarifies that the statute of limitations for additional estate tax related to cessation of qualified use is extended, providing the IRS more time to assess deficiencies upon discovery of non-qualified use.