Estate of Edward H. Eddy, Deceased, National City Bank, Executor v. Commissioner of Internal Revenue, 115 T. C. 135 (2000)

The alternate valuation election under IRC section 2032 must be made on an estate tax return filed within one year after the due date (including extensions) of the return.

Summary

In Estate of Eddy v. Commissioner, the executor of Edward H. Eddy's estate filed the federal estate tax return more than 18 months after the extended due date, electing to use an alternate valuation date under IRC section 2032. The court ruled that this election was invalid because it was not made within one year after the extended due date for filing the return. Additionally, the court upheld an addition to tax for failure to file the return timely, as the executor did not show reasonable cause for the delay. This case underscores the strict time limitations for making the alternate valuation election and the consequences of failing to file estate tax returns on time.

Facts

Edward H. Eddy died on April 13, 1993, owning 237,352 shares of Browning-Ferris Industries, Inc. (BFI) stock. The executor, Douglas Eddy, sought an extension for filing the estate tax return to July 13, 1994, and paid $2 million with the extension request. The executor awaited a valuation of the BFI shares, which was not completed until November 29, 1994. The estate tax return was filed on January 19, 1996, reporting the alternate valuation date of October 13, 1993, but the Commissioner rejected this election as untimely.

Procedural History

The executor filed the estate tax return late, electing the alternate valuation date. The Commissioner issued a notice of deficiency, disallowing the alternate valuation election and assessing an addition to tax for failure to file timely. The executor petitioned the Tax Court, which upheld the Commissioner's determinations.

Issue(s)

1. Whether the executor may elect the alternate valuation date for the estate when the election is made on a return filed more than one year after the extended due date for filing the return.
2. Whether the estate is liable for the addition to tax under IRC section 6651(a)(1) for failure to file the estate tax return timely.

Holding

1. No, because the alternate valuation election must be made on a return filed within one year after the due date (including extensions) of the return, as per IRC

section 2032(d)(2).
2. Yes, because the estate did not show reasonable cause for failing to file the return on time, and thus is liable for the addition to tax under IRC section 6651(a)(1).

Court's Reasoning

The court applied IRC section 2032(d)(2), which mandates that the alternate valuation election must be made on a return filed within one year after the due date (including extensions) of the return. The court found that the executor's election was untimely, as the return was filed more than 18 months after the extended due date. The court rejected the executor's argument that the Commissioner had discretionary authority under Rev. Proc. 92-85 to allow the untimely election, noting that the revenue procedure does not apply to the one-year period of grace for the alternate valuation election. Regarding the addition to tax, the court found no reasonable cause for the late filing, as the executor could have filed the return on time and later submitted a supplemental return with the valuation information.

Practical Implications

This decision reinforces the strict time limits for electing the alternate valuation date under IRC section 2032, requiring estate executors to file the estate tax return within one year after the due date (including extensions) to make a valid election. Practitioners must advise clients to file returns on time, even if valuations are not complete, and to use supplemental returns if necessary. The case also highlights the importance of timely filing to avoid additions to tax under IRC section 6651(a)(1), as waiting for valuations does not constitute reasonable cause for delay. Subsequent cases have followed this ruling, emphasizing the need for strict adherence to statutory deadlines in estate tax planning and administration.

