Trugman v. Commissioner, 138 T. C. 390, 2012 U. S. Tax Ct. LEXIS 23 (U. S. Tax Court, 2012)

In Trugman v. Commissioner, the U. S. Tax Court ruled that shareholders of an S corporation cannot claim the first-time homebuyer credit under I. R. C. § 36 when the property is purchased by the corporation, not the individuals. The court clarified that an S corporation does not qualify as an 'individual' under the statute, thus barring the credit's application to properties owned by such entities. This decision underscores the importance of precise statutory interpretation in tax law, affecting how taxpayers structure their property acquisitions through corporate entities.

Parties

Jack Trugman and Joan E. Trugman, as Petitioners, filed the case against the Commissioner of Internal Revenue, as Respondent. The Trugmans were pro se, while the Commissioner was represented by Michael W. Bitner and Susan K. Bollman.

Facts

Jack and Joan Trugman were the sole shareholders of Sanstu Corporation, an S corporation incorporated in Wyoming and elected for S status for federal income tax purposes. Sanstu owned and rented various real properties across multiple states. In 2009, the Trugmans decided to move to Nevada, a state without state income tax. Sanstu purchased a single-family home in Henderson, Nevada, which the Trugmans used as their principal residence. Sanstu contributed $319,200 towards the purchase, with the Trugmans contributing $7,500. The Trugmans had not owned a principal residence in the three years prior to the purchase. They claimed the first-time homebuyer credit of $8,000 on their 2009 individual tax return, while Sanstu did not claim it on its corporate return. The Commissioner disallowed the credit, leading to the Trugmans' petition to the U. S. Tax Court.

Procedural History

The Commissioner issued a notice of deficiency to the Trugmans, disallowing the first-time homebuyer credit. The Trugmans timely filed a petition for redetermination with the U. S. Tax Court. The court heard the case and issued its opinion on May 21, 2012, holding that the Trugmans were not entitled to the credit.

Issue(s)

Whether individuals can claim the first-time homebuyer credit under I. R. C. § 36 for a principal residence purchased through an S corporation?

Rule(s) of Law

Under I. R. C. § 36(a), a refundable tax credit is allowed to a first-time homebuyer of

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a principal residence in the United States. A first-time homebuyer is defined as “any individual if such individual (and if married, such individual’s spouse) had no present ownership interest in a principal residence during the 3-year period ending on the date of the purchase of the principal residence. ” I. R. C. § 36(c)(1). The court interpreted the term ‘individual’ under I. R. C. § 36 to exclude S corporations, based on the ordinary meaning of the term and the context of the statute.

Holding

The U. S. Tax Court held that the Trugmans were not entitled to the first-time homebuyer credit under I. R. C. § 36 because the property was purchased by Sanstu, an S corporation, which does not qualify as an ‘individual’ under the statute. Thus, neither Sanstu nor the Trugmans could claim the credit.

Reasoning

The court’s reasoning focused on the statutory interpretation of the term ‘individual’ in I. R. C. § 36. The court applied the ordinary meaning of ‘individual,’ which does not include corporations. It noted that an S corporation’s election for federal income tax purposes does not alter its corporate status. The court contrasted the tax treatment of individuals under I. R. C. § 1 with that of corporations under I. R. C. § 11, reinforcing the distinction between the two. The court further observed that I. R. C. § 36 contemplates individual statuses (e. g. , married) and the concept of a principal residence, which are inapplicable to corporations. The court also addressed the Trugmans’ argument regarding IRS representatives’ advice, stating that such advice does not bind the court or the Commissioner. The court concluded that the Trugmans’ decision to have Sanstu purchase the property, despite using it as their principal residence, did not satisfy the requirements of I. R. C. § 36.

Disposition

The U. S. Tax Court entered its decision for the Commissioner, denying the Trugmans the first-time homebuyer credit.

Significance/Impact

Trugman v. Commissioner is significant for its clarification of the term ‘individual’ under I. R. C. § 36, impacting how taxpayers may structure property acquisitions through S corporations. The decision underscores the importance of precise statutory interpretation in tax law and the limitations on claiming tax credits through corporate entities. This ruling has practical implications for legal practitioners advising clients on tax planning and property transactions, emphasizing the need to consider the legal and tax status of entities involved in such transactions.

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