Wachter v. Commissioner, 142 T. C. 140 (2014)

The U. S. Tax Court in Wachter v. Commissioner ruled that conservation easements in North Dakota, limited to 99 years by state law, do not qualify as granted "in perpetuity" under the Internal Revenue Code, thus disallowing related charitable deductions. The court also denied summary judgment on the issue of cash contributions, citing disputes over whether taxpayers received benefits not disclosed in acknowledgment letters, and whether these letters met the contemporaneous written acknowledgment requirement.

Parties

Patrick J. Wachter and Louise M. Wachter, and Michael E. Wachter and Kelly A. Wachter, as petitioners, against the Commissioner of Internal Revenue, as respondent. The Wachters were petitioners at the trial level in the U. S. Tax Court.

Facts

The Wachters, through entities WW Ranch and Wind River Properties LLC (Wind River), claimed charitable contribution deductions for the years 2004 through 2006. WW Ranch reported bargain sales of conservation easements, while Wind River reported cash contributions. These easements were subject to North Dakota state law, which limits the duration of any real property easement to not more than 99 years. The Wachters used the difference between two appraisals of the same property to determine the value of the easements for their charitable contributions. Wind River's cash contributions were acknowledged by letters from the North Dakota Natural Resource Trust (NRT), which did not mention any goods or services provided in exchange for the contributions.

Procedural History

The Commissioner of Internal Revenue issued notices of deficiency to the Wachters, disallowing their charitable contribution deductions and asserting accuracy-related penalties. The Wachters timely filed petitions with the U. S. Tax Court, which consolidated the cases for trial, briefing, and opinion. The Commissioner moved for partial summary judgment, arguing that the conservation easements did not qualify as "in perpetuity" due to the 99-year limitation under North Dakota law, and that the cash contributions did not satisfy the contemporaneous written acknowledgment requirement. The court granted partial summary judgment regarding the conservation easements but denied it as to the cash contributions due to disputed material facts.

Issue(s)

Whether a conservation easement, limited by North Dakota state law to a duration of not more than 99 years, qualifies as a "qualified real property interest" granted "in perpetuity" under I. R. C. sec. 170(h)(2)(C) and I. R. C. sec. 170(h)(5)(A)?

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Whether the documents provided by the Wachters satisfy the “contemporaneous written acknowledgment” requirement of I. R. C. sec. 170(f)(8) and sec. 1. 170A-13(f)(15), Income Tax Regs. ?

Rule(s) of Law

I. R. C. sec. 170(h)(2)(C) defines a “qualified real property interest” as “a restriction (granted in perpetuity) on the use which may be made of the real property. ” I. R. C. sec. 170(h)(5)(A) requires that the contribution be exclusively for conservation purposes. I. R. C. sec. 170(f)(8)(A) mandates a contemporaneous written acknowledgment from the donee for cash contributions of $250 or more, which must include the amount of cash, whether any goods or services were provided in exchange, and a description and good faith estimate of the value of such goods or services, as per I. R. C. sec. 170(f)(8)(B).

Holding

The U. S. Tax Court held that the North Dakota conservation easements, subject to a 99-year limitation, do not qualify as granted “in perpetuity” under I. R. C. sec. 170(h)(2)(C) and I. R. C. sec. 170(h)(5)(A), thus disallowing the related charitable contribution deductions. The court further held that material facts remained in dispute regarding whether the Wachters satisfied the contemporaneous written acknowledgment requirement for their cash contributions, thus denying summary judgment on this issue.

Reasoning

The court’s reasoning for the conservation easements centered on the interpretation of “in perpetuity” under I. R. C. sec. 170(h)(2)(C). The court found that the 99-year limitation under North Dakota law was not a remote future event but a certain and inevitable occurrence, thus failing to meet the perpetuity requirement. The court distinguished this from isolated situations where long-term leases might be treated as equivalent to a fee simple interest, noting that those situations did not involve the express statutory requirement of being “in perpetuity. “

Regarding the cash contributions, the court analyzed the contemporaneous written acknowledgment requirement under I. R. C. sec. 170(f)(8). The Commissioner argued that the acknowledgment letters failed to mention goods or services allegedly provided by NRT, such as appraisals and partial funding for the easement purchases. The court found that the receipt of such benefits was a material fact in dispute, and thus, summary judgment on this issue was not appropriate. The court also considered that the Wachters might be able to supplement the record to meet the acknowledgment requirements, as per the precedent in Irby v. Commissioner.

Disposition

The court granted the Commissioner’s motion for partial summary judgment with

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respect to the charitable contribution deductions for the conservation easements but denied the motion with respect to the cash contributions, leaving those issues for trial.

Significance/Impact

This case is significant for its interpretation of the “in perpetuity” requirement for conservation easements under the Internal Revenue Code. It establishes that a state law limiting the duration of an easement to less than perpetuity can preclude a charitable deduction for such an easement. The case also underscores the importance of the contemporaneous written acknowledgment requirement for cash contributions, highlighting that disputes over the receipt of benefits in exchange for donations can prevent summary judgment. Subsequent cases and IRS guidance have referenced Wachter v. Commissioner in addressing similar issues regarding conservation easements and charitable deductions.

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