Cave Buttes, L. L. C. v. Commissioner, 147 T. C. No. 10, 2016 U. S. Tax Ct. LEXIS 27 (U. S. Tax Court 2016)

In Cave Buttes, L. L. C. v. Commissioner, the U. S. Tax Court upheld a taxpayer's charitable contribution deduction, ruling that the appraisal attached to the tax return substantially complied with IRS substantiation requirements. The court determined the fair market value of donated land to be higher than the claimed value, rejecting the IRS's argument that the property lacked legal access and was overvalued. This decision clarifies the threshold for substantial compliance with appraisal requirements and impacts how similar charitable contributions are substantiated and valued.

Parties

Cave Buttes, L. L. C. , with Michael Wolfe as the Tax Matters Partner, was the petitioner. The Commissioner of Internal Revenue was the respondent. The case proceeded through the U. S. Tax Court.

Facts

Cave Buttes, L. L. C. owned an 11-acre property in Phoenix, Arizona, which it sold to the Maricopa Flood Control District for $735,000, claiming the remaining value as a charitable contribution. The partnership obtained two appraisals valuing the property at $1. 5 million and $2 million, respectively, and reported a deduction based on the lower appraisal. The IRS challenged the deduction, asserting that Cave Buttes failed to comply with substantiation requirements and that the property's fair market value was not higher than the sale price.

Procedural History

The IRS issued a Final Partnership Administrative Adjustment (FPAA) in December 2010, denying the charitable contribution deduction. Cave Buttes petitioned the U. S. Tax Court, which heard the case in Phoenix. The court was tasked with deciding whether Cave Buttes attached a qualified appraisal to its return, whether it was entitled to a larger deduction based on an appraisal introduced at trial, and whether it was liable for a gross-valuation misstatement penalty.

Issue(s)

Whether Cave Buttes attached a qualified appraisal to its return that substantially complied with the requirements of section 1. 170A-13(c) of the Income Tax Regulations?

Whether Cave Buttes is entitled to a charitable contribution deduction based on the appraisal introduced at trial?

Whether Cave Buttes is liable for a gross-valuation misstatement penalty under

© 2025 SCOTUSreports.com. All rights reserved.

section 6662(h)?

Rule(s) of Law

Section 170 of the Internal Revenue Code governs charitable deductions, requiring substantiation under regulations prescribed by the Secretary. Section 1. 170A-13(c) of the Income Tax Regulations specifies the requirements for a qualified appraisal, including detailed property description, appraiser qualifications, and a statement that the appraisal was prepared for income tax purposes. The court in *Bond v. Commissioner* established that substantial compliance with these requirements is sufficient for a deduction.

Holding

The court held that Cave Buttes substantially complied with the substantiation requirements for its charitable contribution deduction. The appraisal attached to the return met the essential elements of a qualified appraisal, despite minor deficiencies. Additionally, the court found that the property had legal access and adopted the higher fair market value of $2. 167 million from the appraisal introduced at trial, entitling Cave Buttes to a larger deduction. Finally, the court ruled that Cave Buttes was not liable for a gross-valuation misstatement penalty since the property's value was higher than claimed.

Reasoning

The court analyzed the appraisal's compliance with section 1. 170A-13(c) of the Income Tax Regulations, finding that it substantially met the requirements despite missing one appraiser's signature on Form 8283 and lacking qualifications for the second appraiser. The court emphasized the legislative intent behind the appraisal requirements, which is to prevent overvaluations, and found that the appraisal provided sufficient information for the IRS to evaluate the contribution. Regarding the property's value, the court rejected the IRS's argument that the property lacked legal access, finding that Cave Buttes had both express and implied easements. The court also found the adjustments made by Cave Buttes' appraiser to be reasonable and adopted the higher valuation introduced at trial.

Disposition

The court granted Cave Buttes' petition, allowing the charitable contribution deduction based on the higher fair market value of $2. 167 million and rejecting the IRS's argument for a gross-valuation misstatement penalty.

Significance/Impact

This case clarifies the standard for substantial compliance with appraisal requirements for charitable contributions, providing guidance on what constitutes a qualified appraisal. It also reaffirms the importance of legal access in property

© 2025 SCOTUSreports.com. All rights reserved.

valuation and impacts how similar cases are evaluated. The decision may influence future IRS audits and taxpayer reporting of charitable contributions, particularly in cases involving complex property transactions and valuations.

© 2025 SCOTUSreports.com. All rights reserved.