Rutkoske v. Commissioner, 149 T. C. 6 (2017)

In *Rutkoske v. Commissioner*, the U. S. Tax Court ruled that the sale of land and conservation easements does not constitute income from the trade or business of farming under I. R. C. § 170(b)(1)(E). This decision impacts how farmers can claim deductions for conservation contributions, limiting the deduction to 50% of their contribution base for non-qualified farmers, and clarifies the stringent criteria for being considered a 'qualified farmer' for tax purposes.

Parties

Mark A. Rutkoske, Sr. , and Felix Rutkoske, Jr. , and Karen E. Rutkoske (Petitioners) v. Commissioner of Internal Revenue (Respondent). The Rutkoske brothers were the petitioners at both the trial and appeal stages.

Facts

In 2009, Browning Creek, LLC, owned by Mark and Felix Rutkoske, owned 355 acres of land in Maryland, which was leased to Rutkoske Farms for agricultural use. On June 5, 2009, Browning Creek conveyed a conservation easement on the property to Eastern Shore Land Conservancy, Inc. , a public charity, for $1,504,960. An appraisal valued the property at $4,970,000 before the easement and $2,130,000 after, resulting in a reported noncash charitable contribution of $1,335,040. Later that day, Browning Creek sold the remaining interest in the property to Quiet Acre Farm, Inc. , for $1,995,040. The Rutkoskes reported these transactions as income from farming, claiming the status of 'qualified farmers' under I. R. C. § 170(b)(1)(E).

Procedural History

The Rutkoskes filed late 2009 tax returns, claiming noncash charitable contribution deductions. The Commissioner challenged their status as 'qualified farmers' and the valuation of the conservation easement. Both parties filed cross-motions for partial summary judgment on the issue of the Rutkoskes' status as 'qualified farmers'. The U. S. Tax Court granted the Commissioner's motion, ruling that the Rutkoskes were not 'qualified farmers' and thus limited to a 50% deduction of their contribution base.

Issue(s)

Whether the proceeds from the sale of land and conservation easements constitute income from the trade or business of farming under I. R. C. § 170(b)(1)(E), thereby qualifying the Rutkoskes as 'qualified farmers' for the purpose of claiming a charitable contribution deduction up to 100% of their contribution base?

Rule(s) of Law

I. R. C. § 170(b)(1)(E) limits the charitable contribution deduction for conservation

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easements to 50% of the donor's contribution base, unless the donor is a 'qualified farmer' as defined in I. R. C. § 170(b)(1)(E)(v), which requires that more than 50% of the donor's gross income for the year comes from the trade or business of farming as defined in I. R. C. § 2032A(e)(5). I. R. C. § 2032A(e)(5) specifically lists activities that constitute farming, and does not include the sale of land or conservation easements.

Holding

The court held that the Rutkoskes were not 'qualified farmers' under I. R. C. § 170(b)(1)(E). The sale of land and the sale of development rights attached thereto do not constitute activities included in the trade or business of farming as defined by I. R. C. § 2032A(e)(5). Consequently, the Rutkoskes were limited to a charitable contribution deduction of 50% of their respective contribution bases for the conservation easement donation.

Reasoning

The court's reasoning was based on a strict interpretation of the statutory language of I. R. C. § 170(b)(1)(E) and I. R. C. § 2032A(e)(5). The court emphasized that the sale of land and conservation easements are not activities listed in § 2032A(e)(5), which defines the trade or business of farming. The court rejected the Rutkoskes' argument that income from the sale of farm assets should be considered farming income, stating that the statute is clear in its definition of farming activities and does not include the disposal of property. The court also noted that Browning Creek was in the business of leasing real estate, not farming, and therefore the characterization of income from the sale of the property by Browning Creek does not constitute farming income for the Rutkoskes. The court recognized the difficulty this ruling may impose on farmers but maintained that it is not their role to rewrite the statute.

Disposition

The U. S. Tax Court granted the Commissioner's motion for partial summary judgment and denied the Rutkoskes' motion. The court's ruling limited the Rutkoskes' charitable contribution deduction to 50% of their contribution base. The valuation of the conservation easement remained in dispute, likely necessitating a trial on that issue.

Significance/Impact

This case significantly impacts the tax treatment of conservation easement donations by farmers, clarifying the narrow definition of 'qualified farmer' under I. R. C. § 170(b)(1)(E). It underscores the importance of adhering to the statutory language when determining eligibility for enhanced tax deductions. The ruling may deter some farmers from donating conservation easements due to the reduced tax

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benefit, potentially affecting conservation efforts. The case also illustrates the Tax Court's reluctance to expand statutory definitions beyond their explicit terms, emphasizing the importance of legislative clarity in tax law.

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