Oakhill Woods, LLC v. Commissioner of Internal Revenue, T. C. Memo. 2020-24 (U. S. Tax Court, 2020)

In Oakhill Woods, LLC v. Commissioner, the U. S. Tax Court ruled that a taxpayer must strictly comply with IRS regulations when claiming a charitable contribution deduction, specifically requiring the disclosure of the cost or adjusted basis of donated property on Form 8283. The court rejected the taxpayer's argument of substantial compliance and upheld the validity of the regulation, emphasizing the importance of this information in identifying potential overvaluations. This decision underscores the need for precise adherence to substantiation rules to prevent abuse of charitable deductions.

Parties

Oakhill Woods, LLC (Oakhill), the petitioner, and Effingham Managers, LLC, as the Tax Matters Partner (TMP), filed the case against the Commissioner of Internal Revenue, the respondent.

Facts

Oakhill, a Georgia limited liability company operating as a partnership for federal income tax purposes, claimed a charitable contribution deduction for a donation of a conservation easement to the Georgia Land Trust (GLT) in 2010. The easement covered 379 acres of a 388-acre tract that Oakhill had received from HRH Investments, LLC (HRH), a related party, in December 2009. HRH had purchased the tract in August 2007 for $1,008,736. Oakhill's appraisal valued the easement at $7,949,000, reflecting a significant increase in value during a period of economic downturn. Oakhill did not report the cost or adjusted basis of the donated property on Form 8283, instead attaching a letter stating that basis information was unnecessary for the deduction calculation.

Procedural History

The IRS selected Oakhill's 2010 tax return for examination and subsequently issued a summary report in December 2014, proposing to disallow the deduction due to the omission of cost or adjusted basis information on Form 8283. Oakhill's CPA provided this information to the IRS three years after the return was filed. The IRS then issued a notice of final partnership administrative adjustment (FPAA) in September 2017, disallowing the deduction and asserting penalties. Oakhill petitioned the U. S. Tax Court for readjustment of the partnership items in December 2017. The Commissioner filed a motion for partial summary judgment in May 2018, and Oakhill filed a cross-motion for partial summary judgment in December 2018, challenging the validity of the regulation requiring disclosure of cost or adjusted basis.

Issue(s)

Whether Oakhill complied with the substantiation requirements of section 1.

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170A-13(c), Income Tax Regs. , by including the cost or adjusted basis of the donated property on Form 8283?

Whether the regulation requiring disclosure of cost or adjusted basis on Form 8283 is valid?

Rule(s) of Law

Section 170(f)(11)(C) of the Internal Revenue Code requires taxpayers claiming a charitable contribution deduction for property valued over $5,000 to obtain a qualified appraisal and attach to the return an appraisal summary with information as prescribed by the Secretary. The Secretary has prescribed Form 8283 as the appraisal summary, which must include the cost or adjusted basis of the donated property. See sec. 1. 170A-13(c)(4)(ii)(E), Income Tax Regs.

Holding

The Tax Court held that Oakhill did not comply with the substantiation requirements because it failed to include the cost or adjusted basis of the donated property on Form 8283. The court also upheld the validity of the regulation requiring such disclosure.

Reasoning

The court reasoned that Oakhill's omission of cost basis information on Form 8283 constituted a failure to strictly comply with the regulation. The court rejected Oakhill's argument of substantial compliance, noting that the regulation's requirement to disclose cost basis is essential for the IRS to identify potential overvaluations, as intended by Congress when enacting DEFRA. The court found that the significant disparity between Oakhill's claimed value for the easement and the cost basis of the land, had it been disclosed, would have alerted the IRS to a potential overvaluation. The court also dismissed Oakhill's argument that it had cured the omission by providing the information during the audit, stating that such information must be provided at the time of filing to serve its intended purpose.

Regarding the validity of the regulation, the court applied the Chevron two-step test. It found that Congress had not directly spoken to the precise issue of where on the return the cost basis information must be disclosed, thus leaving discretion to the Secretary. The court concluded that the regulation was a permissible construction of the statute, as it reasonably required the inclusion of cost basis information in the appraisal summary to facilitate the IRS's review process.

The court also considered Oakhill's reasonable cause defense but found that genuine disputes of material fact existed as to whether Oakhill had relied on competent and independent advice when deciding not to disclose the cost basis.

Disposition

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The Tax Court granted in part the Commissioner's motion for partial summary judgment, denying Oakhill's deduction for failure to comply with the substantiation requirements. The court denied Oakhill's cross-motion for partial summary judgment, upholding the validity of the regulation.

Significance/Impact

This case reinforces the strict compliance standard for charitable contribution deductions, particularly the requirement to disclose the cost or adjusted basis of donated property. It underscores the importance of this information in combating inflated valuations and tax shelter abuse. The decision also affirms the broad discretion granted to the Secretary in prescribing substantiation requirements, which may impact how taxpayers and practitioners approach the preparation of charitable contribution deductions. The case highlights the challenges taxpayers may face in establishing a reasonable cause defense when relying on advice from potentially conflicted parties.

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