Valley Park Ranch, LLC v. Commissioner, 162 T. C. No. 6 (2024)

The U. S. Tax Court ruled that Treasury Regulation § 1. 170A-14(g)(6)(ii), which governs the allocation of proceeds upon judicial extinguishment of conservation easements, is procedurally invalid under the Administrative Procedure Act. The court also found that the conservation easement deed complied with the statutory requirements for a charitable deduction under I. R. C. § 170(h), allowing the deduction to stand despite the invalid regulation.

Parties

Valley Park Ranch, LLC (Petitioner), represented by Reed Oppenheimer as Tax Matters Partner, challenged the Commissioner of Internal Revenue (Respondent) in the U. S. Tax Court. The case was docketed as No. 12384-20.

Facts

Valley Park Ranch, LLC, a limited liability company treated as a partnership for federal income tax purposes, donated a conservation easement over approximately 45. 76 acres of land in Rogers County, Oklahoma, to Compatible Lands Foundation (CLF) on December 22, 2016. The deed of conservation easement was recorded the same day. Valley Park claimed a $14. 8 million charitable contribution deduction under I. R. C. § 170(a) for the taxable year 2016. The easement deed included provisions that, upon judicial extinguishment, the amount of proceeds to which CLF would be entitled would be determined by a court, unless otherwise provided by state or federal law. The deed also specified that in the event of eminent domain, Valley Park and CLF would be entitled to compensation based on a qualified appraisal.

Procedural History

Following an IRS examination, the Commissioner disallowed the $14. 8 million deduction in a notice of final partnership administrative adjustment (FPAA) dated July 23, 2020. Reed Oppenheimer, as Valley Park's Tax Matters Partner, timely petitioned the U. S. Tax Court for review on October 19, 2020. Both parties filed Cross-Motions for Partial Summary Judgment concerning the validity of Treasury Regulation § 1. 170A-14(g)(6)(ii) and whether the deed complied with the statutory requirements of I. R. C. § 170(h). The court's decision was reviewed under the standard articulated in Golsen v. Commissioner, 54 T. C. 742 (1970), since appeal would lie in the U. S. Court of Appeals for the Tenth Circuit.

Issue(s)

1. Whether Treasury Regulation § 1. 170A-14(g)(6)(ii) is procedurally valid under the Administrative Procedure Act?
2. Whether the conservation easement deed satisfies the "restriction (granted in perpetuity)" requirement under I. R. C. § 170(h)(2)(C)?

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3. Whether the conservation purpose of the easement is “protected in perpetuity” as required by I. R. C. § 170(h)(5)(A)?

Rule(s) of Law

1. Under the APA, a reviewing court shall set aside agency action found to be arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law. 5 U. S. C. § 706(2)(A).
2. I. R. C. § 170(h)(2)(C) requires a qualified real property interest to include “a restriction (granted in perpetuity) on the use which may be made of the real property. “
3. I. R. C. § 170(h)(5)(A) mandates that a contribution shall not be treated as exclusively for conservation purposes unless the conservation purpose is “protected in perpetuity. “

Holding

1. Treasury Regulation § 1. 170A-14(g)(6)(ii) is procedurally invalid under the Administrative Procedure Act.
2. The conservation easement deed satisfies the “restriction (granted in perpetuity)” requirement under I. R. C. § 170(h)(2)(C).
3. The conservation purpose of the easement is “protected in perpetuity” as required by I. R. C. § 170(h)(5)(A).

Reasoning

The court followed the Eleventh Circuit’s decision in Hewitt v. Commissioner, 21 F. 4th 1336 (11th Cir. 2021), which found that Treasury failed to adequately respond to significant comments regarding the proposed regulation, making it procedurally invalid under the APA. The court rejected the Sixth Circuit’s affirmance of Oakbrook Land Holdings, LLC v. Commissioner, 28 F. 4th 700 (6th Cir. 2022), as it did not need to reach the validity of the regulation to resolve that case. The court applied the statutory text directly to the deed, finding it satisfied the perpetuity requirements. The deed’s language explicitly granted a restriction in perpetuity and ensured the conservation purpose was protected in perpetuity, as there was no provision for automatic reversion to the grantor. The court rejected the Commissioner’s argument that the deed’s “prior claims” clause violated the perpetuity requirement, interpreting “prior” as claims existing before the grant. The court also dismissed the Commissioner’s contention that the deed failed to require the donee to use future proceeds consistently with the original contribution, as the statute only required that the granted property not automatically revert.

Disposition

The court denied the Commissioner’s Motion for Partial Summary Judgment and granted Valley Park’s Motion for Partial Summary Judgment, holding that the

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proceeds regulation was invalid under the APA and that the deed satisfied the statutory requirements under I. R. C. § 170(h).

Significance/Impact

This decision adds to the jurisprudential split regarding the validity of Treasury Regulation § 1. 170A-14(g)(6)(ii), with the Tax Court now aligning with the Eleventh Circuit's view. It may encourage taxpayers to challenge similar regulations on procedural grounds and highlights the importance of clear statutory compliance in conservation easement deeds. The ruling emphasizes that the statutory requirements of I. R. C. § 170(h) can be met without relying on the invalidated regulation, potentially affecting future cases involving conservation easement deductions. This decision also underscores the court's willingness to revisit and reconsider its prior holdings in light of appellate court reversals, reflecting on the principles of stare decisis and the stability of tax law.

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