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Cases, Regulations and Statutes

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Commentary

It seems rather unbelievable that a tenant on a 1,276 acre farm devoted only 29 to 30 hours on the farm during the year; although cotton production is different than corn and soybean production, this author, who with his wife own 1,000 acres, finds that figure bordering on the unbelievable.

In conclusion

As is frequently the case, the outcome in tax cases is heavily influenced by the facts. This case, highly favorable for the taxpayer, should not be viewed as indicative of the outcome in similar cases. However, it is viewed as “substantial authority” in all 50 states unless overturned on appeal.

ENDNOTES


2 I.R.C. § 469(c)(1).

3 I.R.C. § 469(h)(1).

4 Footnote 3 to Leland, Jr. v. Comm’r, T.C. Memo. 2015-240.


6 T.C. Memo. 2015-240.
Mandatory Reporting (LMR) program as required by the Livestock Mandatory Reporting Act of 1999. The LMR program was reauthorized in October 2006 and September 2010. On September 30, 2015, the Agriculture Reauthorization Act of 2015 reauthorized the LMR program for an additional 5 years until September 30, 2020, and directed the Secretary of Agriculture (Secretary) to amend the LMR swine reporting requirements. In addition, the lamb industry requested revisions to the lamb reporting requirements as authorized through the 1999 Act. The AMS has issued proposed regulations which would incorporate the requested lamb reporting revisions, and would incorporate the swine reporting revisions contained within the 2015 Reauthorization Act under the Agricultural Marketing Act of 1946, USDA Livestock Mandatory Reporting regulations. 81 Fed. Reg. 10132 (Feb. 29, 2016).

### FEDERAL ESTATE AND GIFT TAXATION

**BASIS OF ESTATE PROPERTY.** The “Surface Transportation and Veterans Health Care Choice Improvement Act of 2015,” amends I.R.C. § 1014 by adding subparagraph (f) which states that “basis must be consistent with the federal estate tax return.” Proposed regulations have been issued to implement the new rules. The statute goes on to state that, for property acquired from a decedent, the income tax basis may not exceed the final value determined for federal estate tax purposes. The statute then cautions that this new rule only applies “…to any property whose inclusion in the decedent’s estate increased the liability for the tax imposed for federal estate tax purposes, reduced by credits allowable against the tax.” The proposed regulations exclude all property reported on an estate tax return required to be filed by I.R.C. § 6018 if no federal estate tax is imposed upon the estate due to allowable credits, except a credit for prepayment of tax. Property that qualifies for the charitable and marital deductions is also excluded because it does not increase the estate tax liability. Tangible personal property that is not subject to an appraisal under Treas. Reg. § 20.2031-6(b) because of its value is likewise excluded. Under the proposed regulations, the “final value” is the value reported on the federal estate tax return once the limitations period on assessment for adjusting or contesting the value has expired. If the IRS determines a different value from the reported value, the final value is the value determined by the IRS once that value can no longer be contested. If the value determined by the IRS is timely contested by the estate, the final value is the value determined in a binding agreement or the value determined by a court once that determination becomes final. If a recipient’s basis in property subject to the consistency requirement is relevant for any purpose under the I.R.C. before the final value of the property has been determined, the recipient may not claim a basis in excess of the value reported on the Form 8971. If the final value is determined before the period of limitations on assessment expires for any federal income tax return of the recipient on which the basis is relevant and the final value is different from the initial basis claimed with respect to the return, a deficiency and underpayment may result. The final value of after-discovered or omitted property reported on an estate tax return filed before the assessment period of the estate tax has expired is determined as under Prop. Treas. Reg. § 1.1014-10(c)(1) or (2). If the after-discovered property or omitted property is reported after the period of limitations on assessment has expired, the final value of the after-discovered or omitted property is zero. If no estate tax return was filed, the final value of all property includible in the gross estate subject to the consistency requirement is zero until the value is determined in accordance with the proposed rules. The proposed regulations clarify that permissible adjustments to the basis of property as the result of a post-death event will not cause a beneficiary to be in violation of I.R.C. §§ 1014(f) and 6662(k)(8). Additionally, the Act requires new information reporting for inherited property for which an estate tax return is filed after July 31, 2015. Under the statute, the executor of any estate required to file a federal estate tax return must furnish to the Department of the Treasury (presumably IRS) Form 8971, and furnish to each person acquiring any interest in property included in the decedent’s gross estate, a statement identifying the value of each interest in that property as reported on the federal estate tax return. Moreover, any person required to file a return under I.R.C. § 6018(b) (which pertains to situations where the executor of an estate is unable to make a complete federal estate tax return as to any part of the gross estate of the decedent and is required to include in the return a description of the property involved and the name of every person holding a legal or beneficial interest in the property), must include the same information referred to in the preceding paragraph. The proposed regulations provide that, where property that was previously reported or is required to be reported on Form 8971 and that property is distributed or transferred by the recipient to a related transferee in a transaction in which the transferee’s basis for federal income tax purposes is determined wholly or partially in reference to the transferor’s basis, the transferor must file with the IRS and furnish to the transferee, a supplemental statement showing the new ownership of the property.


**PORTABILITY.** The decedent died, survived by a spouse, on a date after the effective date of the amendment of I.R.C. § 2010(c), which provides for portability of a “deceased spousal unused exclusion” (DSUE) amount to a surviving spouse. To obtain the benefit of portability of the decedent’s DSUE amount to the spouse, the decedent’s estate was required to file Form 706, United States Estate and Generation-Skipping Transfer Tax Return, on or before the date that is 9 months after the decedent’s date of death or the last day of the period covered by an extension. The decedent’s estate did not file a timely Form 706 to make the portability election. The estate discovered its failure to elect portability after the due date for making the election. The spouse, as executrix of the decedent’s estate, represented that the value of the decedent’s gross estate is less than the basic exclusion amount in the year of the decedent’s death and that during the decedent’s lifetime, the decedent made no taxable gifts. The spouse requested an extension of time pursuant to Treas. Reg. § 301.9100-3 to elect portability of the decedent’s DSUE amount pursuant to I.R.C. § 2010(c)(5)(A). The IRS granted the estate an extension of time to file Form 706 with the election.

Ltr. Rul. 201610013, Nov. 6, 2015.
ADOPTION TAX CREDIT. The IRS has published information about the adoption tax credit. The maximum adoption tax credit and exclusion for 2015 is $13,400 per child. The credit is nonrefundable; therefore, the credit may reduce any tax to zero, but if the credit is more than the tax owed, a taxpayer cannot receive any additional amount as a refund. If a taxpayer’s employer helped pay for the adoption through a written qualified adoption assistance program, the taxpayer may qualify to exclude that amount from tax. If a taxpayer’s credit is more than the tax owed, the taxpayer can carry any unused credit forward to reduce taxes for up to five years or until the credit is used up, whichever comes first.

An eligible child is an individual under age 18 or a person who is physically or mentally unable to care for their self. Adoption expenses must be directly related to the adoption of the child and be reasonable and necessary. Types of expenses that can qualify include adoption fees, court costs, attorney fees and travel. In most cases, taxpayers can claim the credit whether the adoption is domestic or foreign. However, the timing rules for which expenses to include differ between the two types of adoption. If a taxpayer adopted an eligible U.S. child with special needs and the adoption is final, a special rule applies. The taxpayer may be able to take the tax credit even if the taxpayer did not pay any qualified adoption expenses. Depending on the adoption’s cost, a taxpayer may be able to claim both the tax credit and the exclusion. However, a taxpayer cannot claim both a credit and exclusion for the same expenses. The credit and exclusion are subject to income limitations. The limits may reduce or eliminate the amount taxpayers can claim depending on the amount of income. Taxpayers can use IRS Free File to prepare and e-file a federal tax return for free. File Form 8839, Qualified Adoption Expenses, with your Form 1040.

BUSINESS EXPENSES. During 2012 the taxpayer started a small engine repair business, worked as an independent contractor for a large farm for three months and worked as an employee of the same farm for three months. The taxpayer claimed business deductions for expenses incurred in building a shop for the small engine repair business and deductions for vehicle expenses and a cell phone used in the small engine repair business and as an independent contractor. The court denied the deductions for the vehicle expenses because the taxpayer provided no written evidence to support the expenses. The court also denied the deduction for the cost of building the shop because the taxpayer provided no evidence of the cost or that the taxpayer made any payments for the materials used in the construction of the shop. The court did allow a deduction for portion of the taxpayer’s cell phone expenses which were shown by receipts but without evidence of the percentage of use in the repair business and independent contractor activity.

CHARITABLE DEDUCTION. The taxpayers, husband and wife, claimed deductions for cash charitable contributions of $19,224. The taxpayers did not provide any contemporaneous records of the charitable gifts but produced receipts or other evidence to support any cash payments to charities. The taxpayers also did not present any contemporaneous written acknowledgement of any of the gifts from the donee charities. The court held that the charitable deductions were properly disallowed by the IRS. Brown v. Comm’r, T.C. Memo. 2016-39.

COURT AWARDS AND SETTLEMENTS. The taxpayer sued a former employer for racial, national origin, and disability discrimination; failure to pay wages; failure to provide meal periods; engaging in unfair business practices; and intentional infliction of emotional distress. The parties reached a negotiated monetary settlement which did not allocate the payments to any specific claim or allegation of injury made by the taxpayer. The court held that the settlement payment was taxable because the taxpayer’s claims against the employer did not include any claims of physical injury. Dulanto v. Comm’r, T.C. Memo. 2016-34.

DISCHARGE OF INDEBTEDNESS. The IRS has published information on taxation of debt cancellation. If the cancelled debt was a loan on a main home, a taxpayer may be able to exclude the cancelled amount from taxable income. The taxpayer must have used the loan to buy, build or substantially improve a main home to qualify. A taxpayer’s main home must also secure the mortgage. The exclusion of qualified home mortgage cancelled debt from income was extended through Dec. 31, 2016. If a taxpayer’s lender cancelled part of a mortgage through a loan modification or ‘workout,’ the taxpayer may be able to exclude that amount from taxable income. A taxpayer may also be able to exclude debt discharged as part of the Home Affordable Modification Program, or HAMP. The exclusion may also apply to the amount of debt cancelled in a foreclosure. The exclusion may apply to amounts cancelled on a refinanced mortgage. This applies only if the taxpayer used proceeds from the refinancing to buy, build or substantially improve a main home and only up to the amount of the old mortgage principal just before refinancing. Amounts used for other purposes do not qualify. Other types of cancelled debt such as second homes, rental and business property, credit card debt or car loans do not qualify for this special exclusion. On the other hand, there are other rules that may allow those types of cancelled debts to be nontaxable. If a taxpayer’s lender reduced or cancelled at least $600 of the taxpayer’s debt, the taxpayer should receive Form 1099-C, Cancellation of Debt, by Feb. 1. If a taxpayer qualifies for the exclusion, the taxpayer should report the excluded debt on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness with the federal income tax return. Taxpayers may use the Interactive Tax Assistant tool on IRS.gov to find out if a cancelled mortgage debt is taxable. For more on this topic see Publication 4681, Canceled Debts, Foreclosures, Repossessions and Abandonments. IRS Tax Tip 2016-30.

HEALTH INSURANCE. The IRS has published information on the reporting requirements of employers under the Affordable Care Act. Applicable large employers (ALEs) that are subject
to the employer shared responsibility provisions have new information reporting responsibilities that require them to report information about health coverage offered to each full-time employee, or to report that the ALE did not offer coverage to the full-time employee. This includes the requirement to send information statements to full-time employees and to the IRS on new forms. This information will help the IRS determine whether an employer shared responsibility payment applies to the ALE and is also used in determining eligibility for the premium tax credit for the full-time employee and his or her family. In addition, all employers that sponsor self-insured health coverage – whether or not the employer is an ALE – have additional information reporting responsibilities that apply to health coverage providers. Under this requirement, an employer that sponsors a self-insured plan must report information about employees and their dependents who enroll in the coverage, whether or not the employee is a full-time employee. The IRS will use the information reporting by health coverage providers to verify the months of the individual’s coverage for purposes of the individual shared responsibility provision. The new reporting requirements for employers first apply for coverage provided in 2015, and the reporting on 2015 coverage is due in 2016. The IRS recently extended the due dates for filing and furnishing the 2015 forms. Applicable large employers must file Form 1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns, and Form 1095-C, Employer-Provided Health Insurance Offer and Coverage, with the IRS, no later than May 31, 2016, if not filing electronically, and no later than June 30, 2016, if filing electronically. They must also furnish a copy of Form 1095-C to each full-time employee by March 31, 2016. The IRS similarly extended the due dates for 2015 reporting by health coverage providers, and self-insured ALEs should use these same forms to meet their health coverage provider reporting obligations. Health Care Tax Tip 2016-29.

HOBBY LOSSES. The taxpayer owned several successful car dealerships operated under one S corporation. The taxpayer also owned a farm where the taxpayer operated a horse breeding, boarding, training, hauling and showing operation. The first issue raised was whether the car dealership business and horse operation constituted one or two business activities. The taxpayer claimed that the sales of the autos and horses were often interrelated because customers from one activity would be customers from the other activity. The court used the factors from Mitchell v. Comm’r, T.C. Memo. 2006-145 and its precedents to determine that the activities were separate because (1) they were operated in separate locations, (2) the activities were not attempts to derive income from the same land, (3) the activities did not start at or near the same time, (4) the taxpayer failed to show that the activities benefited each other, (5) the activities did not benefit from cross-advertising, (6) the activities shared management only through the taxpayer, (7) the taxpayer did not fully manage both activities, (8) the activities did not share an accountant, and (9) the activities did not share financial records. Thus, the horse activity was examined alone as to whether it was engaged in for profit in order to allow deduction of losses. The court held that the horse activity was not engaged in with the intent to make a profit because (1) the taxpayer did not keep full records on the activity sufficient to determine the profitable and unprofitable aspects and did not create a business plan until just before trial; (2) although the taxpayer had some expertise at breeding horses, the taxpayer did not show any expertise at profitably operating a horse activity; (3) the taxpayer failed to show any appreciation in value of the horses and the land was not included in the horse activity; (4) the taxpayer had not ever realized a profit from the activity; (5) the horse activity losses offset substantial income from other sources; and (6) the taxpayer and family members received recreational pleasure from the horse activity. The appellate court affirmed in a decision designated as not for publication. Price v. Comm’r, 2016-1 U.S. Tax Cas. (CCH) ¶ 50,210 (3d Cir. 2016), aff’d, T.C. Memo. 2014-253.

The taxpayer filed Schedules C for 2007-2009 for a real estate business. The taxpayer was otherwise attending school or unemployed during these three years. The taxpayer sold one property during these years but claimed expense deductions resulting in losses for all three years. The court found that the taxpayer did not have sufficient records to substantiate most of the expenses and the court found most of the records to be suspect on their face. The court held that the taxpayer did not conduct the real estate activity with the intent to make a profit because (1) the taxpayer did not maintain records of the activities, a business bank account or make any changes to the operation to make it more profitable; (2) the taxpayer had no expertise in real estate sales; (3) the activity never showed a profit; and (4) the losses from the activity offset income from employment. The court noted that the other factors of Treas. Reg. § 1.183-2(b) were neutral. In the alternative, the court held that, even if the taxpayer was held to have intended to make a profit, the business expense deductions would be disallowed for lack of substantiation. The appellate court affirmed in a decision designated as not for publication. Pouemi v. Comm’r, 2016-1 U.S. Tax Cas. (CCH) ¶ 50,199 (4th Cir. 2016), aff’d, T.C. Memo. 2015-161.

IRA. The taxpayer pled guilty to a charge of defrauding the government and received prison time plus restitution along with two other defendants. After the taxpayer failed to pay the restitution, the government sought the taxpayer’s bank records and discovered an IRA owned by the taxpayer. The government obtained a turnover order which ordered the IRA trustee to liquidate the taxpayer’s IRA and distribute the funds to the government. The taxpayer did not learn about the turnover order, liquidation or distribution until the taxpayer discovered that the IRA had a zero balance. The taxpayer did not receive any receipt for the distribution from the IRA and did not receive a Form 1099-R from the IRA trustee to report the distribution. The taxpayer did not report the distribution as taxable income and the IRS assessed the unpaid taxes and an understatement of tax penalty. The taxpayer argued that the reasonable cause and in good faith exception applied in that the taxpayer did not receive any notice of the distribution or a Form 1099-R reporting the distribution. The court held that the IRS properly assessed an underpayment of tax penalty, under I.R.C. § 6662(a), (b), because the taxpayer should have taken additional steps to determine the taxability of
the distribution once the taxpayer learned of its existence or at least reported the distribution. Navaid v. Comm’r, T.C. Memo. 2016-37.

LITIGATION AND ADMINISTRATIVE COSTS. The IRS has adopted as final regulations which amend the regulations under I.R.C. § 7430 relating to awards of administrative and attorneys’ fees. I.R.C. § 7430 generally permits a prevailing party in an administrative or court proceeding to seek an award for reasonable administrative and litigation costs incurred in connection with such proceedings; however, I.R.C. § 7430 imposes net worth and size limitations on who can recover costs. The final regulations specify which limitations with respect to net worth and size apply when a taxpayer is an owner of an unincorporated business and clarify the net worth and size limitations in cases involving partnerships subject to the unified audit and litigation procedures of I.R.C. §§ 6221 through 6234 (the TEFRA partnership procedures). The net worth of taxpayers who filed joint returns should be calculated separately and the final regulations further explain how the separate calculation will be conducted in various situations. When taxpayers who file joint returns jointly petition the court and incur joint costs, each taxpayer qualifies for a separate net worth limitation of $2 million, but the limitation will be evaluated jointly. As such, taxpayers will meet the net worth limitation so long as their combined assets are equal to or less than $4 million, regardless of how the assets are distributed. When taxpayers file a joint return, but petition the court separately and incur separate costs, the limitation will be evaluated separately. The final regulations clarify that, for purposes of determining net worth, assets are valued based on the cost of their acquisition. The final regulations clarify that a taxpayer may be eligible to recover reasonable administrative costs from the date of the 30-day letter only if at least one issue (other than recovery of administrative costs) remains in dispute as of the date that the IRS takes a position in the administrative proceeding. 81 Fed. Reg. 10479 (March 1, 2016).

PARTNERSHIPS

ADMINISTRATIVE ADJUSTMENTS. The IRS has issued a notice requesting comments by April 15, 2016 in preparation for issuing regulations implementing the new partnership audit rules enacted as part of the Bipartisan Budget Act of 2015 (the Act), Pub. L. No. 114-74, § 1101, 129 Stat. 584 (2015). The Act repeals the current rules governing partnership audits (known as the TEFRA partnership procedures) and replaces them with a new centralized partnership audit regime that, in general, assesses and collects tax at the partnership level. The new law is effective for tax year beginning after December 31, 2017. The Act removes existing subchapter C of chapter 63 of the Code and replaces it with a new subchapter C to chapter 63 of the Code, including amended I.R.C. §§ 6221-6241. Act § 1101(a), (c). The Act also removes subchapter D of chapter 63 and part IV of subchapter K of chapter 1 of the Code, rules applicable to electing large partnerships, effective for partnership taxable years beginning after December 31, 2017. Act § 1101(a). Subchapter D contains the audit rules for electing large partnerships, and part IV of subchapter K prescribes the income tax treatment for such partnerships. I.R.C. § 6221(a) as amended by the Act provides that, in general, any adjustment to items of income, gain, loss, deduction, or credit of a partnership for a partnership taxable year (and any partner’s distributive share thereof) shall be determined, and any tax attributable thereto shall be assessed and collected, at the partnership level. The applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to any such item or share shall also be determined at the partnership level. I.R.C. § 6221(b) as amended by the Act provides rules for partnerships that are required to furnish 100 or fewer Schedules K-1, Partner’s Share of Income, Deductions, Credits, etc. to elect out of this new regime. Generally, a partnership may elect out of the new regime only if each of its partners is an individual, corporation (including certain types of foreign entities), or estate. Special rules apply for purposes of determining the number of partners in the case of a partner that is an S corporation. I.R.C. § 6221(b)(2)(C) as amended provides that the Secretary by regulation or other guidance may prescribe rules for purposes of the 100-or-fewer Schedule K-1 requirement similar to the rules for S corporations with respect to any partner that is not an individual, corporation, or estate. I.R.C. § 6222 as amended by the Act provides generally requiring a partner’s return to be consistent with the partnership’s return. I.R.C. § 6223 as amended by the Act sets forth the rules for designation of a partnership representative. Under this provision, a partnership representative must be a partner (or other person) with a substantial presence in the United States. If a designation is not in effect, the IRS may select any person as a partnership representative. I.R.C. § 6225 as amended by the Act generally addresses partnership adjustments made by the IRS and the calculation of any resulting imputed underpayment. I.R.C. § 6225(a) generally provides that the amount of any imputed underpayment resulting from an adjustment must be paid by the partnership. I.R.C. § 6225(b) describes how an imputed underpayment is determined, and I.R.C. § 6225(c) describes modifications that, if approved by the IRS, may reduce the amount of an imputed underpayment. The PATH Act added to I.R.C. § 6225(c) a special rule addressing certain passive losses of publicly traded partnerships. I.R.C. § 6233 provides rules for computation of interest and penalties on an imputed underpayment. I.R.C. § 6226 as amended by the Act provides an exception to the general rule under I.R.C. § 6225(a)(1) that the partnership must pay the imputed underpayment. Under I.R.C. § 6226, the partnership may elect to have the “reviewed year” partners take into account the adjustments made by the IRS and pay any tax due as a result of those adjustments. In this case, the partnership is not required to pay the imputed underpayment. I.R.C. § 6225(d)(1) defines “reviewed year” to mean the partnership taxable year to which the item(s) being adjusted relates. Under I.R.C. § 6227 as amended by the Act, the partnership may request an administrative adjustment, which is taken into account in the year the administrative adjustment request is made. The partnership generally has three years from the date of filing the return to make an administrative adjustment request for that year, but may not make an administrative adjustment request for a partnership taxable year after the IRS has mailed the partnership a notice of an administrative proceeding with respect to the taxable year. I.R.C. § 6241(4) as amended by the Act provides that no deduction is allowed under subtitle A for any payment required to be made by a partnership under the new partnership audit regime. I.R.C. § 6231 as amended by the Act
describes notices of proceedings and adjustments, including certain
time frames for mailing the notices and the authority to rescind
any notice of adjustment with the partnership’s consent. I.R.C.
§ 6232(a) provides that any imputed underpayment is assessed
and collected in the same manner as if it were a tax imposed for
the adjustment year by subtitle A, except that in the case of an
administrative adjustment request that reports an underpayment
that the partnership elects to pay, the underpayment shall be paid
when the request is filed. I.R.C. § 6234 as amended by the BBA
generally provides that a partnership may seek judicial review
of the adjustments within 90 days of the date the notice of final
partnership adjustment is mailed. I.R.C. § 6235 provides the period
of limitations on making adjustments. I.R.C. § 6241 provides
definitions and special rules, including rules addressing bankruptcy
and treatment when a partnership ceases to exist. Notice 2016-23,
I.R.B. 2016-12.

S CORPORATIONS

ELECTION TO ADJUST BASIS. The taxpayers were three
limited liability companies with a common member of a trust and
which elected to be taxed as partnerships. The trust was a revocable
grantor trust owned by an individual taxpayer. The taxpayer died
but the LLPs inadvertently failed to elect to adjust the basis of
partnership property after the death of taxpayer. The IRS granted
the LLPs an extension of time to make the I.R.C. § 754 election

THEFT LOSSES. The taxpayer invested funds over six years,
2003 through 2008, with a friend who was developing software to
allow a cell phone to operate a tv. The taxpayer became suspicious
of the friend’s use of the money and started to ask for repayment
in 2010. The friend did not pay back any of the invested funds and
the taxpayer claimed a theft loss in 2010 for the amounts invested.
The court looked at three theories of allowing a deduction for the
losses. The first issue, however, was the lack of any testimony or
other evidence from the friend to support the taxpayer’s claims
that the friend intended to defraud the taxpayer. Without such
evidence, the court held that no crime under state law was shown
to have occurred and no theft loss was deductible. The court also
noted that the friend had claimed a willingness to repay all the
invested amounts, thus showing that the investment was worthless
in 2010. The court also looked at whether the loss was eligible
for a deduction as a bad debt. The court held that the debt was
not a business debt because the taxpayer was not in the trade or
business of lending. The court also held that the debt was not a
non-business bad debt because the taxpayer failed to prove that
the debt was worthless in 2010, again because the friend claimed
a willingness to repay all the invested amounts. Finally the court
looked at the eligibility of the investment for a worthless security
deduction and held that the investment amount was not deductible
as a worthless security because the taxpayer failed to prove that
the debt was worthless in 2010, again because the friend claimed
a willingness to repay all the invested amounts. Riley v. Comm’r,
T.C. Memo. 2016-46.

UNEMPLOYMENT BENEFITS. The IRS has published
information on taxation of unemployment benefits. Taxpayers
must include all unemployment compensation as income for
the year. Taxpayers should receive a Form 1099-G, Certain
Government Payments, by Jan. 31 of the following year. This
form will show the amount paid and the amount of any federal
income tax withheld. There are various types of unemployment
compensation. Unemployment compensation includes amounts
paid under U.S. or state unemployment compensation laws. For
more information, see Publication 525, Taxable and Nontaxable
Income. Taxpayers must include benefits paid from regular union
dues in taxable income. Other rules may apply if the taxpayer
contributed to a special union fund and the contributions to the
fund are not deductible. In that case, a taxpayer only includes as
income any amount received that was more than the contributions
made. Taxpayers can choose to have federal income tax withheld
from unemployment compensation. Taxpayers can have this done
using Form W-4V, Voluntary Withholding Request. If a taxpayer
chooses not to have tax withheld, the taxpayer may need to make
estimated tax payments during the year. IRS Tax Tip 2016-34.

WORK OPPORTUNITY TAX CREDIT. The IRS has issued a
notice which provides guidance and transition relief for employers
claiming the Work Opportunity Tax Credit (WOTC) under I.R.C.
§§ 51 and 3111(e), as extended and amended by the PATH Act of
2015, Pub. L. No. 114-113, div. Q. Section 142(a) of the PATH Act
amended I.R.C. § 51(c) to extend the WOTC through December
31, 2019. Section 142(b) of the PATH Act amended I.R.C. § 51(d)
to expand the “targeted groups” of individuals, the employment of
whom may qualify the employer for a credit listed in the statute, to
include qualified long-term unemployment recipients (as defined in
I.R.C. § 51(d)(15)). This notice provides guidance and transition
relief beyond the 28-day deadline in I.R.C. § 51(d)(13)(A)(ii)
for employers that hire members of targeted groups (other than
qualified long-term unemployment recipients) on or after January
1, 2015, and on or before May 31, 2016. The notice also provides
guidance and transition relief beyond the 28-day deadline in I.R.C.
§ 51(d)(13)(A)(ii) for employers who hire members of the new
targeted group of qualified long-term unemployment recipients on
or after January 1, 2016, and on or before May 31, 2016. Notice

AGRICULTURAL TAX
SEMINARS

by Neil E. Harl

Due to serious family medical issues, Dr. Harl has had to
cancel at least the first three seminars previously announced. Although Dr. Harl may need to cancel the
remaining seminars, except Ames, IA, here are the
tentative cities and dates for the seminars in 2016 at
this time:

August 24-25, 2016 - Quality Inn, Ames, IA
September 15-16, 2016 - Ramkota Hotel, Sioux Falls, SD
September 22-23, 2016 - Holiday Inn, Rock Island, IL
October 11-12, 2016 - Atrium Hotel, Hutchinson, KS

More information will be posted on
The Agricultural Law Press is honored to publish, in early April 2016, the completely revised and updated 19th Edition of Dr. Neil E. Harl’s excellent guide for farmers and ranchers who want to make the most of the state and federal income and estate tax laws to assure the least expensive and most efficient transfer of their estates to their children and heirs. This book contains detailed advice on assuring worry-free retirement years, using wills, trusts, insurance and outside investments as estate planning tools, ways to save on estate settlement costs, and an approach to setting up a plan that will eliminate arguments and friction in the family. Federal estate taxation has undergone great changes in recent years and this book sorts out these changes for you in a concise manner. Farm Estate and Business Planning also includes discussion of employment taxes, formation and advantages of use of business entities, federal farm payments, state laws on corporate ownership of farm land, federal gift tax law, annuities, installment obligations, charitable deductions, all with an eye to the least expensive and most efficient transfer of the farm to heirs.

Written with minimum legal jargon and numerous examples, this book is suitable for all levels of people associated with farms and ranches, from farm and ranch families to lenders and farm managers. Some lawyers and accountants circulate the book to clients as an early step in the planning process. We invite you to begin your farm and ranch estate and business planning with this book and help save your hard-earned assets for your children. The book is also available in digital PDF format for $25; see www.agrilawpress.com for ordering information.