

# TaxNewsFlash

## United States

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### **U.S. Tax Court: Taxpayers limited in charitable contribution deduction, since not "qualified farmers"**

The U.S. Tax Court today released an opinion holding that gain from sales of property and development rights does not constitute income from the trade or business of farming within the meaning of section 2032A(e)(5). As a result, the taxpayers who conveyed a conservation easement to a public charity did not meet the requirement of "qualified farmers or ranchers," which would have entitled them to an increased percentage limitation on deductibility.

The case is: *Rutkoske v. Commissioner*, 149 T.C. No. 6 (August 7, 2017). Read the Tax Court's [opinion](#) [PDF 80 KB]

#### **Background**

A limited liability company (LLC)—having only two members who were the taxpayers (two brothers)—leased 355 acres to others who used it as farmland. In 2009, the LLC sold a conservation easement restricting the development rights on the land to a public charity for a bargain price. The LLC then sold its interest in the property to an unrelated party.

On their income tax returns, the taxpayers claimed that they were "qualified farmers" and as such could deduct "qualified conservation contributions" up to 100% of their respective contribution bases for the year of contribution. Otherwise, their deduction would be limited to 50% of their contribution bases (less the amount of other charitable contributions allowable).

At issue was whether the proceeds from the sale of property and development rights constitute income from the trade or business of farming—under section 2032A(e)(5).

## **Tax Court's opinion**

The Tax Court granted summary judgment for the government.

The Tax Court explained that section 170(b)(1)(E)(iv) is a provision intended to provide a tax benefit for "qualified conservation contributions" (e.g., conservation easements) by qualified farmers or ranchers. For these purposes, a qualified farmer or rancher is an individual whose gross income from the trade or business of farming—defined as the activities listed in section 2032A(e)(5)—is greater than 50% of that person's gross income for the year. The court explained that neither the disposal of property nor the disposal of development rights attached to that property is an activity included in section 2032A(e)(5).

The Tax Court acknowledged that the taxpayers were farmers and that they continued in the agricultural business after the property was sold, but explained that "...being a farmer does not make one a 'qualified farmer' for purposes of section 170(b)(1)(E)(iv)(I)."

The court concluded that the taxpayers were limited by section 170(b)(1)(E)(i) to a charitable contribution deduction of 50% of their respective contribution bases with respect to the conveyed conservation easement.

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