NICHOLS PATRICK WEEKLY TAX UPDATE

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CITATIONS

1. **Rehabilitation of Contiguous Properties Is Single Project**

(LTR 201418035; 5/2/2014)

The IRS ruled that the rehabilitation of contiguous properties should be treated as part of the same project and, therefore, considered one property for purposes of the rehabilitation tax credit and application of section 168(h)(1)(B).

1. **Who is Eligible Tax Matters Partner ?**

(ECC 201418051; 5/2/2014)

In e-mailed advice, the IRS explained that state law only permits a current office or manager to act as the representative of a tax matters partner for a limited liability company.

1. **Consultant Received Guaranteed Payments as Partner**

(Seismic Support Services LLC et al.; T.C. Memo. 2014-78; 5/5/2014)

The Tax Court, sustaining accuracy-related penalties, held that a seismic design consultant -- as a partner -- received guaranteed payments for services, concluding that the payments were made without regard to the partnership's income and weren't for the use of capital and that the consultant performed all services on behalf of the partnership.

1. **Partnership Overvalued Conservation Easement, But Not By Much !**

(Palmer Ranch Holdings Ltd. et al; T.C. Memo. 2014-79; 5/6/2014)

The Tax Court, using the before-and-after valuation method, determined that a partnership overvalued a conservation easement for purposes of its claimed charitable contribution deduction, but the court found an accuracy-related penalty to be inapplicable because there was no gross valuation misstatement and the partnership acted in good faith.

1. **Vehicle Expense Deduction Denied Due to Poor Records**

(Jason Daniel Abelitis et ux.; T.C. Summ. Op. 2014-44; 5/7/2014)

The Tax Court, in a summary opinion, denied a couple's deductions for vehicle expenses relating to the husband's mobile advertising business and upheld an accuracy-related penalty, finding that the couple didn't satisfy the substantiation requirements of section 274(d), didn't keep adequate records, and hadn't acted in good faith.

1. **Unsubstantiated Deductions Denied; Accuracy Penalties Upheld**

(John H. Chisolm et ux; T.C. Summ. Op. 2014-45; 5/7/2014)

The Tax Court, in a summary opinion sustaining accuracy-related penalties, held that a couple wasn't entitled to charitable contribution or business expense deductions beyond those allowed by the IRS because they failed to adequately substantiate the claimed deductions.

1. **Final Regs Address Estate, Trust Costs Subject to 2 Percent Floor**

(T.D. 9664; 5/8/2014)

The IRS has issued final regulations providing guidance on which costs incurred by estates or non-grantor trusts are subject to the 2 percent floor for miscellaneous itemized deductions under section 67(a).

1. **Arrangement to Fund Benefits Through Subsidiary Is Insurance**

(Rev. Rul. 2014-15; 2014-22 IRB 1; 5/8/2014)

The IRS has ruled that an arrangement in which employers fund their retiree health benefits through a wholly owned subsidiary is insurance for federal income tax purposes.

1. **Tax Court Finds Couple's Home Improvement Wasn't a Business**

(Issachar Ohana et ux; T.C. Memo. 2014-83;

The Tax Court held that a couple who bought and renovated two homes over a period of years weren't engaged in the trade or business of real estate development and were liable for tax deficiencies after the disallowance of business-related deductions; they are also liable for accuracy-related penalties on the resulting tax underpayments.