**NICHOLS PATRICK WEEKLY TAX UPDATE**

**With E. Lynn Nichols, CPA**

**May 19, 2014**

**CITATIONS**

1. **Tax Consequences of Proposed Trust Division**

(LTR 201419001; 5/9/2014)

The IRS ruled that the division of a trust wouldn't cause the recognition of gain or loss, affect the basis for trust assets, constitute a disposition of all or any part of qualified terminable interest property, result in a transfer subject to federal gift tax, and that the new trusts will be treated as qualified subchapter S trusts.

1. **No Gain or Loss Recognized on Transaction**

(LTR 201419005; 5/9/2014)

The IRS ruled that a contribution followed by a distribution will qualify as a reorganization under section 368(a)(1)(D), that all assets transferred will retain their holding period and basis, and that no gain or loss will be recognized.

1. **IRS Entitled to Reconstruct Business Income, Impose Penalties**

(George R. Bristol v. Commissioner; T.C. Memo. 2014-84; 5/12/2014)

The Tax Court held that the operator of a bee and wasp removal business maintained insufficient records to substantiate business deductions and the IRS was entitled to use the bank deposits method to reconstruct the income of the business and impose additions to tax under sections 6651 and 6654.

1. **Gain From Sale of Property Is Ordinary Income; Penalty Imposed**

(Gregory G. Boree et ux. v. Commissioner; T.C. Memo. 2014-85; 5/12/2014)

The Tax Court held that a couple's gain from the sale of property from their real estate business didn't qualify for capital gains treatment, that the income from the transaction was ordinary, and that as a result of their understated tax liability of more than $1.7 million, the couple was liable for an accuracy-related penalty.

1. [Individual Denied Joint Filing Status, Exemptions, and Credits](http://services.taxanalysts.com/taxbase/tnt3.nsf/Current+Edition/5C784716C52680A985257CD700088350?OpenDocument)

(Jason Alan Bruce v. Commissioner; T.C. Summ. Op. 2014-46; 5/12/2014)

The Tax Court, in a summary opinion, held an individual's filing status was married filing separately, he wasn't entitled to dependency exemption deductions for children that resided with his wife longer than with him, and he wasn't entitled to child and earned income tax credits; the court held he wasn't liable for an accuracy-related penalty.

1. **Couple Denied Deductions for Easement Donations; Penalties Apply**

(Logan M. Chandler et ux. v. Commissioner; 142 T.C. No. 16; 5/14/2014)

The Tax Court held that a couple overstated the fair market value of easement donations for charitable contribution deduction purposes, finding that the easements had no value; the court also found that the couple substantiated some of the increased basis they claimed in a home they sold and that they are liable for some accuracy-related penalties.

1. **Individual Had Wage Income Not Business Income; Deductions Denied**

(Lawrence Richards Jr. et ux. v. Commissioner; T.C. Memo. 2014-88; 5/15/2014)

The Tax Court held that an individual erroneously included wage income on her Schedule C as gross receipts or sales and improperly included business expenses on Schedule C; the court found that she wasn't entitled to employee business expense deductions for which she hadn't sought reimbursement and that weren't properly substantiated.

1. **IRS Issues SB/SE Guidance on Collecting Civil Penalties**

(SBSE-05-0514-0031; 5/13/2014)

The IRS Small Business/Self-Employed Division has issued guidance on the collection of preparer, promoter, appraiser, material adviser, and aiding and abetting penalties, which are assessed to increase voluntary compliance.