CASES, REGULATIONS AND STATUTES

by Robert P. Achenbach, Jr.

BANKRUPTCY

GENERAL-*ALM* § 13.03.*

EXEMPTIONS

TRUST. The debtor had established an irrevocable trust with the debtor retaining an income interest and the remainder passing first to the debtor's spouse and then to the debtor's children. The debtor transferred two corporations to the trust, one which operated a liquor store and one which operated a farm. Although all of the business assets were transferred to the trust and the debtor owned only an income interest in the trust, the debtor and spouse continued to operate the businesses without following the formalities of the trust. The debtor removed funds from the businesses without reporting the amounts as income, claimed the business assets as personal assets on loan applications, and commingled business assets without keeping complete records. The court held that the trust was a sham and invalid; therefore, the debtor could not claim an exemption for the debtor's interest in the trust and all trust property was included in the debtor's estate. ***In re* Gillespie, 269 B.R. 383 (Bankr. E.D. Ark. 2001)**.

CONTRACTS

REVOCATION OF ACCEPTANCE. The defendant had purchased a combine from a dealer and the combine was partly financed through a loan from the plaintiff manufacturer of the combine. The defendant had many problems in operating the combine and sought to return the combine to the dealer in exchange for a new one. The plaintiff refused to accept the return of the combine. The defendant continued to use the combine but refused to make any more payments on the loan. The plaintiff repossessed and sold the combine and filed suit for the balance of the loan. The defendant counterclaimed for breach of implied and express warranties, breach of the implied warranty of fitness for a particular purpose and intentional misrepresentation. The jury verdict found that the plaintiff had breached the warranty and awarded the defendant the return of the downpayment. However, the jury verdict also reduced the award to the defendant by the fair market rental value of the combine for the time the defendant used it, an amount in excess of the damages awarded to the defendant. The judge allowed the plaintiff to amend the pleadings to include a claim in quantum meruit and awarded the plaintiff the difference between the fair rental value and the defendant's downpayment. On appeal the plaintiff argued that the defendant had failed to properly revoke acceptance because the defendant continued to use the combine. The court noted that continued use of a good after notification of revocation of acceptance did not, in itself, negate the revocation. The court held that, where replacement of the good would carry a high cost to the buyer, continued use was allowed after revocation of acceptance. The court held that the defendant could not afford to replace an expensive combine after making a substantial investment in the defective combine. In addition, the court noted that the defendant could not be expected to carry the burden of replacement when the plaintiff refused to accept the return of the combine. The plaintiff argued that the depreciation of the combine from the continued use rendered the revocation ineffective. The court noted that the plaintiff did not allege that the defendant damaged the combine in any way and held that depreciation alone was not sufficient to render the revocation ineffective. The defendant argued that the trial court's acceptance of the post-judgment amendment of the pleadings to allow a quantum meruit claim was improper because the defendant was denied a chance to defend on that claim. The appellate court agreed, holding that the post-judgment amendment violated the defendant's due process rights. The court reinstated the jury verdict which the court interpreted as having the effect of giving no award to either party. **Deere & Co. v. Johnson, 271 F.3d 613 (5th Cir. 2001)**.

FEDERAL AGRICULTURAL PROGRAMS

CONSERVATION RESERVE PROGRAM. The CCC has adopted as final regulations amending the Conservation Reserve Program (CRP) regulations to provide, under certain conditions, for equitable relief to producers who violated their contract based on a good faith reliance on the action or advice of certain USDA representatives, or while attempting to comply with their contract. The regulations also provide that CRP contracts will not be terminated for failure to plant cover when that failure was due to excess rainfall or flooding. **67 Fed. Reg. 2131 (Jan. 16, 2002)**.

FEDERAL ESTATE AND GIFT TAX

ALTERNATE VALUATION DATE. The decedent's estate filed a timely estate tax return which did not include an alternate valuation date election. The estate was advised that the election was available and should have been taken. The estate requested an extension of time to file an amended return which would make the alternate valuation date election, decreasing the value of the gross estate and decreasing the estate taxes. The IRS granted the extension. **Ltr. Rul. 200203031, Oct. 17, 2001**.

GIFT. The taxpayer and deceased spouse had established a living trust. The trust provided that at the death of the decedent,

the trust assets were to be distributed to a family trust and a marital trust, with the marital trust receiving the minimum amount of property from the decedent's estate which would produce the smallest estate tax. The estate tax return preparer claimed a marital deduction for the entire amount of trust property passing to the two trusts. The taxpayer surviving spouse as trustee petitioned a state court to force the estate to comply with the terms of the trust and the court issued an order for distribution of trust assets to the two trusts according to the trust provisions. The assets were distributed using asset values fairly representative of appreciation and depreciation since the decedent's death. The IRS ruled that the transfer of trust assets under the court order did not constitute a gift by the taxpayer as trustee and would not cause the assets to be included in the taxpayer's estate. The IRS also ruled that the portion of the trust assets transferred to the marital trust would be eligible for the marital deduction but that the assets transferred to the family were not eligible for the marital deduction because the payment of income to the surviving spouse was discretionary by the trustee. **Ltr. Rul. 200203045, Oct. 19, 2001**.

VALUATION OF STOCK. The decedent was the major shareholder in a family corporation and was 92 years old when the family decided to change the decedent's interest so as to protect the family ownership of the corporation. The decedent agreed to transfer all the stock to a trust for the decedent with remainders to family members. The stock was valued at $100 for gift tax purposes and gift tax returns were filed for the gifts of the remainder interests. The donees also agreed to pay any additional gift tax if the value of the gifts was increased by the IRS and to pay any additional estate tax if the gifts were included in the decedent's estate. The IRS did increase the value of the gifts and the gifts were included in the decedent's estate because the decedent died within three years after the gifts were made. The additional gift and estate tax, however, were paid by other family members and not the donees. The estate contested the valuation of the stock transfers, arguing that the potential gift and estate tax liability of the donees reduced the value of the stock. The court held that the liability for the gift and estate taxes was too contingent to affect the value of the stock at the time the gifts were made. The court also noted that the gift and estate tax liability was illusory because the donees did not pay the additional taxes. **Estate of Armstrong v. United States, 2002-1 U.S. Tax Cas. (CCH) ¶ 60,427 (4th Cir. 2002)*, aff'g,* 132 F. Supp.2d 421 (W.D. Va. 2001)**.

FEDERAL INCOME TAXATION

2001 RATE REDUCTION CREDIT ADVANCE PAYMENT. The IRS has provided guidance for reporting the rate reduction credit advance payment received by many taxpayers in 2001. One new line has been added to the 2001 individual tax return forms for use by taxpayers who did not receive the maximum amount of the 2001 advance payment to reflect the rate reduction credit that they can now claim. The IRS has announced that many early filers have made errors relating to that new line, and taxpayers are cautioned to read the instructions carefully in order to avoid delays in the processing of their returns. According to the IRS, some taxpayers are putting their advance payment amount on the credit line, when they should be leaving the line blank. Individuals who have already received the maximum amount for their filing status--$300 for single persons or married persons filing separately, $500 for heads of households, and $600 for joint filers or qualifying widow(er)s--should be leaving the line blank. Other taxpayers who are entitled to the credit are mistakenly leaving the line blank. The credit and the advance payments are the means by which taxpayers can obtain the benefit of the new 10 percent tax rate. If the 2001 income and filing status would give individuals a larger benefit than the advance payment that they received during 2001, they should claim the difference as a rate reduction credit on their 2001 returns. Dependents who are ineligible for advance payments or the credit can get the benefit of the lower tax rate by completing the "Tax Computation Worksheet for Certain Dependents" in the tax instructions. Taxpayers who made errors on their returns relating to the credit should wait to see if the IRS catches those mistakes during processing. If the IRS fails to contact them by the time they receive their refunds, they may file amended returns to correct the errors. **IR-2002-06.**

CHARITABLE DEDUCTION. The taxpayers, husband and wife, had made contributions of money and services to their elderly aunt. The court held that the taxpayers were not entitled to a charitable contribution for the money and services provided to the aunt. **Cameron v. Comm'r, T.C. Summary Op. 2002-4**.

CORPORATIONS-*ALM* § 7.02.*

DEFINITION. The IRS has issued a revenue procedure providing guidance under I.R.C. § 7701 for a newly formed entity that requests relief for a late initial classification election filed within six months of the due date of the initial election. This revenue procedure provides a simplified method to request relief for certain late initial classification elections. An initial classification election is an election by an eligible entity newly formed under local law to be classified effective on the date of its formation as other than the default classification provided under I.R.C. § 301.7701-3(b)(1) and (2). This procedure is in lieu of the private letter ruling procedure that is used to obtain relief for a late entity classification election under I.R.C. §§ 301.9100-1 through 301.9100-3. Accordingly, user fees do not apply to corrective action under this revenue procedure. An entity that is not eligible for relief under this revenue procedure, or is denied relief by the service center, may request relief by applying for a private letter ruling. The procedural requirements for requesting a private letter ruling are described in *Rev. Proc. 2002-1, I.R.B. 2002-1, 1* (or its successor). This revenue procedure does not apply to a subsequent election to change the classification of an entity. **Rev. Proc. 2002-5, I.R.B. 2002-6**.

TRANSFEREE LIABILITY FOR TAX. The taxpayer was a shareholder in a corporation in real estate development. The corporation had reached a settlement with another corporation as to a loan and the agreement provided for payment to the

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taxpayer's corporation. The taxpayer had advanced funds to the corporation from time to time and was owed money at the time of the settlement. The taxpayer then received the money owed at a time when the taxpayer's corporation was insolvent. The corporation filed late income tax returns which, although the returns showed no taxable income, had alternative minimum tax owed. The corporation had no funds to pay the tax and the IRS sought payment from the taxpayer as a receiver of corporate property. The court held that the money received by the taxpayer was money paid in consideration for the loans to the corporation and the taxpayer had no liability for the corporate taxes. **Johnson v. Comm'r, 118 T.C. No. 4 (2002)**.

COURT AWARDS AND SETTLEMENTS-ALM § 4.02[14].* The taxpayer operated a consulting business as a sole proprietorship. The business provided seminars for other businesses which involved adventure activities with some risk of injury to the participants. One participant was injured and sued the taxpayer. The taxpayer's insurer refused to defend the taxpayer in the lawsuit and the taxpayer sued the insurer for breach of contract. The taxpayer settled with the participant in exchange for the participant receiving a portion of any proceeds from the lawsuit against the insurer. The taxpayer and insurer settled and the taxpayer paid a portion of that settlement to the participant and the taxpayer's lawyers. The IRS ruled that (1) the entire insurance settlement was included in the taxpayer's gross income; (2) the taxpayer could deduct, as a business expense, the amounts paid to the participant and for attorneys' fees; (3) the deductions were not subject to alternative minimum tax because the deductions were business expense deductions. **Ltr. Rul. 200203010, Oct. 4, 2001**.

DEPRECIATION. The taxpayer was in the heavy equipment sales and leasing business. When the taxpayer initially acquired a piece of equipment, the equipment was considered inventory but if the equipment was leased, the taxpayer began to claim depreciation deductions for the equipment. Much of the equipment was leased several times but was always eventually sold. Upon sale, any gain was reported as ordinary income. In a Technical Advice Memorandum letter, the IRS ruled that the taxpayer did not have to characterize the equipment as inventory while it was leased. The IRS also ruled that if a piece of equipment was removed from the leasing operation and was held only for sale, the equipment had to be returned to inventory and depreciation could no longer be claimed as a deduction. **TAM Ltr. Rul. 200203001, May 11, 2001**.

DISASTER PAYMENTS. On December 31, 2001, the president determined that certain areas in New York were eligible for assistance under the Disaster Relief and Emergency Assistance Act, 42 U.S.C. § 5121, as a result of a snow storm on December 24, 2001. **FEMA-3170-EM**. Accordingly, a taxpayer who sustained a loss attributable to the disaster may deduct the loss on his or her 2000 federal income tax return.

DISCHARGE OF INDEBTEDNESS. The taxpayers, husband and wife, had borrowed money from a bank and secured the loan with business property. The taxpayers defaulted on the loan and transferred the collateral to the bank. The taxpayers moved several times and did not receive deficiency notices from the bank. The bank eventually declared the loan uncollectible and discharged the debt. Based on testimony of the taxpayers as to the fair market value of their assets and debts in the year of the discharge, the court held that the taxpayers were insolvent in the year the loan was discharged. Therefore, the taxpayers did not recognize discharge of indebtedness income from the discharge of the loan. **Anuncius v. Comm'r. T.C. Memo. 2002-21**.

EXPENSE METHOD DEPRECIATION. The taxpayer was a dentist who purchased an X-ray machine to allow the taxpayer to provide X-rays for disabled patients. The taxpayer claimed expense method depreciation for the X-ray machine and also claimed disability access credit for the X-ray machine under I.R.C. §§ 38, 44. That court held that under I.R.C. § 44(d)(7)(A), no other deduction was allowed if the credit was taken. The taxpayer argued that, because the credit was claimed, the expense method depreciation deduction should have been reduced. The court held that the expense method depreciation election was irrevocable; therefore, the credit could not be allowed. **Wadnizak v. Comm'r, T.C. Summary Op. 2002-1**.

IRA. The taxpayer was married during the tax years involved but filed separate tax returns because the taxpayer believed that the taxpayer's spouse was not properly reporting income. The taxpayer lived in a community property state. The spouse had made withdrawals from an IRA in the spouse's name and did not include the withdrawals in income or pay the I.R.C. § 72 addition to tax on the withdrawals. The IRS assessed one-half of the withdrawals and one-half of the addition to tax against the taxpayer. The court held that, under I.R.C. § 408(d), (g), only the spouse was subject to inclusion of the withdrawal amount in income and the additional tax. See also *Bunney v. Comm'r, 114 T.C. 259 (2000)*. **Morris v. Comm'r, T.C. Memo. 2002-17**.

In the summer of 1997 Congress created the so-called Roth IRA and provided that ordinary IRAs could be "rolled over" into Roth IRAs. The form that the legislation took, however, meant that if funds from a regular IRA were rolled over into a Roth IRA and then immediately withdrawn, the I.R.C. § 72 10 percent addition to tax would not apply. After Congress discovered this situation, in July 1998, it subjected such withdrawals to the 10 percent tax, effective January 1, 1998. The taxpayer had made a rollover distribution from an IRA to a Roth IRA and distributed funds from the Roth IRA prior to passage of the corrective legislation. Because the legislation was made retroactive, the taxpayer was assessed the 10 percent addition to tax on the withdrawal from the Roth IRA. The taxpayer challenged the retroactive application of the 10 percent tax to the withdrawal as unconstitutional because it was (1) a retroactive imposition of a penalty that denies the taxpayer due process, in violation of the Fifth Amendment, (2) a taking of the taxpayer's property, for which the taxpayer was entitled to just compensation under that amendment, and (3) the imposition of an excessive fine, in violation of the Eighth Amendment. The court held that the retroactive application of the amendment was constitutional. **Kitt v. United States, 2002-1 U.S. Tax Cas. (CCH) ¶ 50,167 (Fed. Cir. 2002)**.

LEVY. The IRS has adopted as final regulations relating to the provision of notice to taxpayers of a right to a hearing

before levy. The regulations implement certain changes made by section 3401 of the Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, 112 Stat. 685 (1998). **67 Fed. Reg. 2549 (Jan. 18, 2002)**.

LIKE-KIND EXCHANGES. The taxpayers co-owned a ranch which was used for cattle grazing. The taxpayer granted a perpetual conservation easement on the land to a tax-exempt cooperative in exchange for other ranch land which was subject to a PCE. The IRS ruled that, assuming that a PCE was an interest in real property under state law, the PCE and the acquired interest in the ranch were like-kind property which entitled the taxpayers to not recognize gain or loss from the transaction. The IRS noted that gain would be recognized to the extent of the share of the PCE which applied to the residential portion of the original ranch and to the extent any other non-like-kind property was received in the exchange. **Ltr. Rul. 200201033, Oct. 18, 2001**.

PARTNERSHIPS-*ALM* § 7.03.*

CONSISTENCY. The taxpayers joined with two other persons to purchase a fruit and vegetable farm in another state. The owners then formed a partnership which treated the farm as partnership property, although title to the farm was not actually transferred to the partnership. The partnership claimed expenses and other deductions from the farm on the partnership tax return and the taxpayers claimed their one-third share of partnership losses on their individual returns. The farm did not do well financially and the farm was sold. Just prior to the sale, the taxpayers transferred the partnership interest to a professional corporation owned by the taxpayers. However, no transfer agreement or other written document was executed. The sale of the farm produced significant gain which was reported on the partnership final return but the taxpayers did not include their share of the gain on their return. The taxpayers argued they had no gain from the sale of the farm because (1) the farm was not partnership property, since title was never transferred to the partnership and (2) the partnership interest belonged to the corporation on the date of the sale. The court held that the duty of consistency, as established by *Beltzer v. United States, 495 F.2d 211 (8th Cir. 1974)*, prohibited the taxpayers from treating the farm as partnership property over several years of tax returns and changing their position in the final tax return, especially when the statute of limitations on assessments had expired for some or all of the earlier tax years. The court also rejected the taxpayers' claim that the partnership interest was owned by the corporation, because the taxpayers failed to provide any documentary evidence of the transfer. The appellate court affirmed in a decision designated as not for publication. **Hollen v. Comm'r, 2002-2 U.S. Tax Cas. (CCH) ¶ 50,182 (8th Cir. 2002), *aff'g*, T.C. Memo. 2000-99**.

DEFINTION. See item under Corporations *supra*. **Rev. Proc. 2002-15, I.R.B. 2002-__**.

PENSION PLANS. The IRS has published the cost-of-living adjustments (COLAs), effective on Jan. 1, 2002, applicable to dollar limitations on benefits paid under qualified retirement plans and to other provisions affecting such plans. The maximum limitation for the I.R.C. § 415(b)(1)(A) annual benefit for defined benefit plans is increased to $160,000 and the I.R.C. § 415(c)(1)(A) limitation for defined contribution plans is $40,000. **Notice 2001-84, I.R.B. 2001-53, 642**.

The IRS has provided relief with respect to employee benefit plans for affected taxpayers who are unable to meet their federal tax obligations due to the September 11, 2001, terrorist attacks. The new notice supplements and expands the tax relief that was granted under Code Sec. 7508A in *Notice 2001- 61, I.R.B. 2001-40, 305* and *Notice 2001-68, I.R.B. 2001-47, 504*, in light of the enactment of the Victims of Terrorism Tax Relief Act of 2001 on January 23, 2002. I.R.C. § 7508A has been amended to provide that the IRS may give up to a one year extension for tax-related deadlines for employee benefit plan sponsors, administrators, participants, beneficiaries or others affected by a Presidentially declared disaster or terroristic or military action. No plan shall be treated as failing to be operated in accordance with its terms solely because it disregards any period by reason of such relief. Pursuant to the new law, with respect to minimum funding requirements in the event of temporary substantial business hardship, if the dates described in I.R.C. §§ 412(c)(10), (m) and section 302(c)(10)(e) of ERISA for making contributions to a plan fell within the period beginning on September 11, 2001, and ending on September 23, 2001, then the date on which such contributions must be made is postponed to September 24, 2001. If the date described in I.R.C. § 412(d)(4) and section 303(d)(1) of ERISA for applying for a waiver of the minimum funding requirements fell within the period beginning on March 15, 2001, and ending on February 28, 2002, then the date on which such waiver must be applied for is postponed to March 1, 2002. With respect to plans that are directly affected by the terrorist attacks, if the date described in I.R.C. §§ 412(c)(10), (m) and section 302(c)(10) or (e) of ERISA for making contributions fell within the period beginning on September 11, 2001, and ending on February 11, 2002, then the date on which such contributions must be made is postponed to February 12, 2002. A plan is considered to be directly affected by the terrorist attacks if, at the time of the attacks, any of the following were located in the New York counties of Bronx, Kings, New York, Queens or Richmond: the principal place of business of any employer that maintains the plan, the office of the plan or the plan administrator, the office of the primary recordkeeper serving the plan or the office of an attorney, enrolled actuary, CPA or other advisor retained by the plan or the employer at the time of the attacks to determine the funding requirements for the period described in the notice. A plan will also be considered to be directly affected by the terrorist attacks if the enrolled actuary for the plan was killed or injured or is missing as a result of the attacks. **Notice 2002-7, I.R.B. 2002-__**.

RETURNS. The IRS has announced that, for the 2002 tax filing season, individuals can check a box on their Forms 1040 to select a third-party designee--a friend, family member or paid preparer--who will be authorized to talk directly with the IRS to correct such issues as computation and data omissions that may arise during the processing of the return. The new third-party designation box is located just above the signature line of Form 1040. The designation also enables the third party to discuss the status of a refund, payment or other notice with

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IRS representatives. The third party designation does not eliminate the need for a power of attorney with respect to issues dealing with examinations, underreported income, appeals and collections notices. **IR-2002-04**

The IRS has posted the following forms and instructions to its web site at www.irs.gov, in the "Forms & Pubs" section: Form 2210-F (2001), Underpayment of Estimated Tax by Farmers and Fishermen. This document is available at no charge and can also be obtained either (1) by calling the IRS's toll-free telephone number, 1-800-TAX-FORM (1-800-829- 3676); (2) through FedWorld on the Internet; or (3) by directly accessing the Internal Revenue Information Services bulletin board at (703) 321-8020.

SAFE HARBOR INTEREST RATES
February 2002

	Annual	Semi-annual	Quarterly	Monthly
		Short-term		
AFR	2.74	2.72	2.71	2.70
110 percent AFR	3.01	2.99	2.98	2.97
120 percent AFR	3.29	3.26	3.25	3.24
		Mid-term		
AFR	4.63	4.58	4.55	4.54
110 percent AFR	5.10	5.04	5.01	4.99
120 percent AFR	5.58	5.50	5.46	5.44
		Long-term		
AFR	5.60	5.52	5.48	5.46
110 percent AFR	6.16	6.07	6.02	5.99
120 percent AFR	6.73	6.62	6.57	6.53

Rev. Rul. 2002-5, I.R.B. 2002-__.

S CORPORATIONS-*ALM* § 7.02[3][c].*

DEFINITION**.** See item under Corporations *supra*. **Rev. Proc. 2002-5, I.R.B. 2002-6**.

TAX SHELTERS. The taxpayer had invested in a jojoba partnership which was audited and denied research and development expense deductions. The taxpayer was then denied a passthrough deduction for their share of those expenses. This case involved assessment of the I.R.C. § 6653(a)(1) 5 percent addition to tax for underpayment of tax for negligence. The court held that the taxpayers had unreasonably relied on the partnership promoter for information about the tax benefits of the partnership. The court noted that the taxpayer was not an inexperienced investor and should have seen the need to seek expert advice about the tax and profit risks from the investment. **Kellen v. Comm'r, T.C. Memo. 2002-19**.

ZONING

AGRICULTURAL USE. An owner of farmland zoned for exclusive farm use (EFU) petitioned the county to allow the construction of 33 seasonal worker residences on the land. The county approved the construction and the Land Use Board of Appeals (LUBA) affirmed the approval. The appellants argued that LUBA incorrectly found that a need existed for the housing and that non-EFU land was not available for the housing. The court held that Or. Rev. Stat. §§ 197.685, 215.213, 215.283 did not require any consideration of the availability of non-EFU land for the housing before approval of the construction of seasonal farm worker residences on EFU land. The court also held that LUBA correctly assessed the need for the workers in the area and not as to the particular property involved. **Durig v. Washington County, 34 P.3d 169 (Or. Ct. App. 2001)**.

An owner of farmland zoned for exclusive farm use (EFU) petitioned the county to allow the construction of a residence on the land. The farmland was otherwise leased to a third party for hay and pasture. The county allowed the construction but the Land Use Board of Appeals (LUBA) remanded the proceeding back to the county for failure to use the proper standard for evaluating the practicability of farming on the property. The landowners argued that EFU land was impracticable for farming if the land would not produce at least $10,000 annual gross income. LUBA had rejected the $10,000 figure as based upon only commercial farming. LUBA held that the proper income level was the one used for farm tax deferral, which was much lower than $10,000, and which included noncommercial farming in determining the practicability of farming the land. The court upheld the LUBA ruling as enforcing the proper standard. **Friends of Linn County v. Linn County, 34 P.3d 1213 (Or. Ct. App. 2001)**.

CITATION UPDATES

Gross v. Comm'r, 272 F.3d 333 (6th Cir. 2001), *aff'g*, T.C. Memo. 1999-254(valuation of stock)p. 4 supra

NationsBank of Texas, N.A. v. United States, 269 F.3d 1332 (Fed. Cir. 2001), *aff'g*, 99-2 U.S. Tax Cas. (CCH) ¶ 60,345 (Fed. Cls. 1999) (estate tax rate) see 12 *Agric. L. Dig*. 180 (2001).

IN THE NEWS

CONSERVATION RESERVE PROGRAM. CRP contracts expiring this year may be extended for another year, officials of the Farm Service Administration announced Friday. Farmers with contracts expiring on Sept. 30, have until May 31 to apply for the one-year extension. About 4,000 Iowa contracts covering 191,000 rural acres expire this year, said Derryl McLaren, state executive director. "This action will help ensure the continued safeguarding of this sensitive land as a new farm bill is developed," McLaren said. Producers enrolled in CRP receive rental payments and other financial incentives to remove lands from production for up to 15 years. CRP participants plant native grasses, trees, and other vegetation to improve water quality, soil, and wildlife habitat. McLaren said the extension would not change participants' rental rates. All or a portion of the acreage currently under contract may be included in an extension, but no new acreage may be added. The USDA is not planning to offer a general CRP signup in fiscal year 2002, McLaren said. **Niel Ritchie, National Organizer, Institute for Agriculture and Trade Policy**

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TAX LEGISLATION. The Congressional Research Service released a report which discusses provisions in EGTRRA 2001 which affect agriculture. The author is a Specialist in Public Finance, Government and Finance Division. Gregg A. Esenwein, "Tax Changes Affecting Agriculture," December 10, 2001.

President Bush on January 23 signed into law the Victims of Terrorism Tax Relief Act of 2001 (HR 2884), which provides tax relief to families of those killed in the September 11 terrorist attack, the post-September 11 anthrax mailings and the Oklahoma City bombing. Bush, in a White House signing ceremony, singled out provisions of the new law that exempt from federal taxes payments made by charitable organizations to victims' families and its waiving of income and payroll taxes on wages earned by terrorism victims in the year of their death and the preceding year. Lower estate taxes will apply to victims of terrorist attacks and to members of the armed forces who have been killed in combat zones, Bush noted. The victims' tax-relief package also provides families of terrorist victims exemption from estate taxes. The new law also exempts death and disability benefits, workers' compensation benefits and government retirement plan benefits for people injured in the attacks. Disaster payments and payments to victims of the airline disasters also will not be taxed. The new law allows the Treasury Department to extend tax-filing deadlines for up to one year for victims and their families. **By Paula Cruickshank, CCH News Staff**

WORLD TRADE. The United States is illegally subsidizing the foreign sales of domestic corporations, ruled an appellate body of the World Trade Organization (WTO). An arbitrator will determine by March what compensation the U.S. must give the European Union (EU), which litigated the case. The decision, released on January 14, is the latest in several years of litigation between the EU and the U.S. on the treatment of foreign income earned by domestic corporations. The decision upholds an earlier WTO ruling that the tax law in dispute, the Foreign Sales Corporation Repeal and Extraterritorial Income Exclusion Act of 2000, Pub. L. No. 106-519, was inconsistent with international trade agreements.

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