CASES, REGULATIONS AND STATUTES

by Robert P. Achenbach, Jr

ANIMALS

HORSES. The plaintiffs, a father and son, visited the defendant's farm which operated a horse boarding service and operated a nursery open to the public. After visiting the nursery, the plaintiffs approached a horse behind a fence. The horse suddenly bit the child on the face, requiring surgery and other medical care. The plaintiffs filed an action in negligence and recklessness. The defendant filed a motion for summary judgment arguing that the plaintiffs failed to allege that the defendant had any knowledge that the horse would bite people. The trial court agreed and granted the summary judgment. On appeal the appellate court reversed, holding that the standard was not whether the defendant had notice that the horse involved bit people but rather whether the defendant had notice that horses in general have a natural propensity to bite. On further appeal the Connecticut Supreme Court affirmed, noting that the ruling did not provide a strict liability rule as to horse bites. ". . . because we conclude in the present case that the plaintiffs' evidence has created a genuine issue of material fact as to whether horses have a natural inclination to bite humans, the case must be submitted to the trier of facts so that it may decide as a matter of fact whether the plaintiffs have met their burden of proof on that issue and, if so, whether the defendants were negligent in controlling [the horse]." **Vendrella v. Astriab Family Limited Partnership, 311 Conn. 301 (Conn. 2014), *aff'g*, 36 A.3d 707 (2012)**.

FEDERAL FARM PROGRAMS

EMERGING MARKETS PROGRAM. The CCC has announced that it is inviting proposals for the 2015 Emerging Markets Program (MAP). The announcement solicits applications from eligible applicants for fiscal year 2015 and sets out the criteria for the award of funds under the program in October 2014. The EMP is administered by personnel of the Foreign Agricultural Service. The EMP assists U.S. entities in developing, maintaining, or expanding exports of U.S. agricultural commodities and products by funding activities that improve emerging markets' food and rural business systems, including reducing potential trade barriers in such markets. The EMP is intended to support export market development efforts of the private sector and public organizations. **79 Fed. Reg. 21711 (April 17, 2014)**.

FOREIGN MARKET DEVELOPMENT COOPERATOR PROGRAM. The CCC has announced that it is inviting proposals for the 2015 Foreign Market Development Cooperator Program (FMDCP). The announcement solicits applications from eligible applicants for fiscal year 2015 and sets out the criteria for the award of funds under the program in October 2014. The FMDCP is administered by personnel of the Foreign Agricultural Service. The FMDCP is designed to create, expand, and maintain foreign markets for U.S. agricultural commodities and products through cost-share assistance. Financial assistance under the program will be made available on a competitive basis and applications will be reviewed against the evaluation criteria contained in the announcement and in the program regulations. All U.S. agricultural commodities, except tobacco, are eligible for consideration. **79 Fed. Reg. 21716 (April 17, 2014)**.

MARKET ACCESS PROGRAM. The CCC has announced that it is inviting proposals for the 2015 Market Access Program (MAP). The announcement solicits applications from eligible applicants for fiscal year 2015 and sets out the criteria for the award of funds under the program in October 2014. The MAP is administered by personnel of the Foreign Agricultural Service. The MAP is designed to create, expand, and maintain foreign markets for U.S. agricultural commodities and products through cost-share assistance. Financial assistance under the MAP will be made available on a competitive basis, and applications will be reviewed against the evaluation criteria contained in the announcement and in the MAP regulations. All U.S. agricultural commodities, except tobacco, are eligible for consideration. **79 Fed. Reg. 21430 (April 16, 2014)**.

ORGANIC FOOD. The AMS has announced the availability of a draft guidance document intended for use by accredited certifying agents and certified operations and exempt operations that produce or handle certified organic products. The guidance document is entitled: *Substances Used in Post-Harvest Handling of Organic Products* (NOP 5023). This guidance document is intended to inform the public of the National Organic Program's current thinking on this topic. The NOP is seeking comments on this draft guidance document. **79 Fed. Reg. 22886 (April 25, 2014)**.

QUALITY SAMPLES PROGRAM. The CCC has announced that it is inviting proposals for the 2015 Quality Samples Program (QSP). The announcement solicits applications from eligible applicants for fiscal year 2015 and sets out the criteria for the award of funds under the program in October 2014. The QSP is administered by personnel of the Foreign Agricultural Service. The QSP is designed to encourage the development and expansion of export markets for U.S. agricultural commodities by assisting U.S. entities in providing commodity samples to potential foreign importers to promote a better understanding and appreciation for the high quality of U.S. agricultural commodities. **79 Fed. Reg. 21432 (April 16, 2014)**.

TECHNICAL ASSISTANCE FOR SPECIALTY CROPS PROGRAM. The CCC has announced that it is inviting proposals for the 2015 Technical Assistance for Specialty Crops (TASC) program. The announcement solicits applications from eligible applicants for fiscal year 2015 and sets out the criteria for the award of funds under the program in October 2014. The TASC is

administered by personnel of the Foreign Agricultural Service. The TASC program is designed to assist U.S. organizations by providing funding for projects that address sanitary, phytosanitary, or technical barriers that prohibit or threaten the export of U.S. specialty crops. U.S. specialty crops, for the purpose of the TASC program, are defined to include all cultivated plants, or the products thereof, produced in the United States, except wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. **79 Fed. Reg. 21714 (April 17, 2014)**.

FEDERAL ESTATE AND GIFT TAXATION

INSTALLMENT PAYMENT OF ESTATE TAX. The decedent's estate filed for a six month extension of time to file the estate tax return in 2007. The extension application included a payment of $9.5 million and a letter explaining that the estate anticipated making an election to pay the remaining estate tax, estimated as $10 million, in installments under I.R.C. § 6166. The letter did not identify the properties which qualified as closely-held business interests. The extension was granted and required the filing of the estate tax return by December 27, 2007. In December 2007, the estate filed a second application and letter for an extension to file, claiming that the appraisal process was taking extra time. The second letter did not identify the properties which qualified as closely-held business interests. The second request was denied in February 2008 as unauthorized by law. The estate tax return was not filed until June 2010 and included the election to pay estate tax in installments. The election was denied by the IRS as not made on a timely-filed return. The estate argued that the statute required only that the election be made within the time for filing the estate tax return; therefore, the requirement in the regulations, Treas. Reg. § 20.6166-1(b), that the election be made with a timely filed return was not enforceable. The estate further argued that it substantially complied with the election requirements in the letter accompanying the first application for extension. The court held that the statute provided for regulations to determine the manner of making elections under I.R.C. § 6166. Although the court did not hold that the doctrine of substantial compliance applied to the election requirements, the court discussed whether the estate had substantially complied with the regulations by filing the letters with the extension applications. The court held that the letters did not substantially comply with the regulations because it omitted identification of the properties involved and did not contain a statement by the executor as to the facts supporting the qualifications for the election. **Estate of Woodbury v. Comm'r, T.C. Memo. 2014-66**.

FEDERAL INCOME TAXATION

ADDITIONAL MEDICARE TAX. The IRS has published information about the Additional Medicare Tax which is 0.9 percent of wages, self-employment income and railroad retirement compensation (RRTA) that is more than a threshold amount. The threshold amount that applies is based on filing status. The threshold amounts are:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household	$200,000
Qualifying widow(er) with dependent child	$200,000

Taxpayers must combine wages and self-employment income to determine if income exceeds the threshold. Taxpayers may not consider a loss from self-employment when they figure this tax. Taxpayers must compare RRTA compensation separately to the threshold. See the instructions for Form 8959, *Additional Medicare Tax*, for examples. Employers must withhold this tax from wages or compensation when they pay a taxpayer more than $200,000 in a calendar year, without regard to the taxpayer's filing status, wages paid to the taxpayer by another employer, or income that the taxpayer may have from other sources. Employers do not combine the wages for married couples to determine whether to withhold Additional Medicare Tax. Taxpayers may owe more tax than the amount withheld, depending on their filing status and other income. In that case, taxpayers should make estimated tax payments or request additional income tax withholding using Form W-4, *Employee's Withholding Allowance Certificate*. If a taxpayer had too little tax withheld, or did not pay enough estimated tax, the taxpayer may owe an estimated tax penalty. For more on this topic, see Publication 505, *Tax Withholding and Estimated Tax*. Taxpayers who owe this tax should file Form 8959, with the tax return and report any Additional Medicare Tax withheld by an employer on Form 8959. **IRS Tax Tip 2014-54**.

CORPORATIONS

LEGAL FEES. The taxpayer was a corporation which was owned by another wholly-owned family corporation which also owned a third corporation. All three corporations were part of a cement business. The taxpayer's board of directors decided to purchase the other two corporations. One shareholder of the taxpayer challenged the reorganization in a law suit. The parties negotiated a settlement. The taxpayer deducted the legal fees incurred in the litigation and settlement. The court held that the legal fees were capital expenses because the fees arose out of the reorganization. The appellate court affirmed in a decision designated as not for publication. **Ash Grove Cement Co. v. Comm'r, 2014-1 U.S. Tax Cas. (CCH) ¶ 50,265 (10th Cir. 2014), *aff'g*, 2013-1 U.S. Tax Cas. (CCH) ¶ 50,180 (D. Kan. 2013)**.

DEPENDENTS. The taxpayer had a child outside of marriage. When the child was two years old, the couple entered into a conciliation agreement which set the terms of joint custody and visiting times for the taxpayer. However, seven years later, the child's activities had included football and basketball practices which required a large time commitment by the taxpayer to allow the child to participate in those activities. The court found that the testimony demonstrated that in the tax years involved, the child spent more time in the years with the taxpayer than with the mother. Therefore, the court held that the taxpayer was entitled to the dependency deduction for the child. **Harris v. Comm'r, T.C. Memo. 2014-69**.

ELECTRICITY PRODUCTION CREDIT. The 2014 inflation-adjustment factors used in determining the availability of the credit for renewable electricity production, refined coal production, and Indian coal production under I.R.C. § 45 for qualified energy resources and refined coal is 1.5088. The inflation adjustment factor for Indian coal is 1.1587. The credit for refined coal production is $6.601 per ton of qualified refined coal sold in 2014. The credit for Indian coal production is $2.317 per ton of Indian coal sold in 2014. The 2014 reference price for fuel used as feedstock is $56.88 per ton. The amount of the credit is 2.3 cents per kilowatt hour on sales of electricity produced from wind energy, closed-loop biomass, geothermal energy and solar energy, and 1.1 cents per kilowatt hour on sales of electricity produced from open-loop biomass, small irrigation power facilities, landfill gas facilities, trash combustion facilities, qualified hydropower facilities, and marine and hydrokinetic energy facilities. Because the 2014 reference price for electricity produced from wind does not exceed eight cents multiplied by the inflation adjustment factor, the phaseout of the credit does not apply to such electricity sold during calendar year 2014. Because the 2014 reference price for fuel used as feedstock for refined coal does not exceed the $31.90 reference price of such fuel in 2002 multiplied by the inflation adjustment factor plus 1.7, the phaseout of the credit does not apply to refined coal sold during calendar year 2014. The phaseout of the credit for electricity produced from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, marine and hydrokinetic renewable energy does not apply to such electricity sold during calendar year 2014. The reference prices for facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, marine and hydrokinetic renewable energy for 2014 have not yet been determined. **CCH, 2014FED ¶46,322.**

EMPLOYEE BUSINESS EXPENSES. The taxpayer claimed employee business expenses as deductions on Schedule A, mostly for travel. The evidence included the reimbursement policy of the taxpayer's employer which allowed for reimbursement of reasonable and documented travel expenses. The taxpayer testified that the taxpayer elected not to seek reimbursement. The court held that the travel expenses were not deductible because the taxpayer had the opportunity to obtain reimbursement and choose not to seek reimbursement. **Tocher v. Comm'r, T.C. Summary Op. 2014-34**.

FIRST TIME HOMEBUYER CREDIT. In a scheme to avoid the related party rules, the taxpayer's mother transferred title to a home to an unrelated couple. On the same day, the couple sold the home to the taxpayer and spouse. The unrelated couple also transferred title to their home to the taxpayer's mother who, in turn, sold the home the same day to the couple's child. The court held that the form of the transactions could be ignored by the IRS such that the taxpayer was not entitled to the first time homebuyer credit for the purchase of the home because the home was in substance purchased from the taxpayer's mother. **Moreland v. Comm'r, 2014-1 U.S. Tax Cas. (CCH) ¶ 50,263 (N.D. Ala. 2014)**.

HEALTH INSURANCE COVERAGE EXEMPTION. The IRS has published information on the health insurance coverage exemption. The Affordable Care Act calls for individuals to have qualifying health insurance coverage for each month of the year, have an exemption, or make a shared responsibility payment when filing his or her federal income tax return. Taxpayers may be exempt from the requirement to maintain qualifying health insurance coverage, called minimum essential coverage, and may not have to make a shared responsibility payment when they file their next federal income tax return. A taxpayer may be exempt if the taxpayer: (1) has no affordable coverage options because the minimum amount for the annual premiums is more than 8 percent of the taxpayer's household income; (2) has a gap in coverage for less than three consecutive months, or (3) qualifies for an exemption for one of several other reasons, including having a hardship that prevents the taxpayer from obtaining coverage or belonging to a group explicitly exempt from the requirement. The IRS website, IRS.gov/aca, has a comprehensive list of the coverage exemptions. How a taxpayer obtains an exemption depends upon the type of exemption. Taxpayers can obtain some exemptions only from the Marketplace in the area where they live, others only from the IRS, and yet others from either the Marketplace or the IRS. Additional information about exemptions is available on the Individual Shared Responsibility Provision web page on IRS.gov. The page includes a link to a chart that shows the types of exemptions available and whether they must be granted by the Marketplace, claimed on an income tax return filed with the IRS, or by either the Marketplace or the IRS. For additional information about how to get exemptions that may be granted by the Marketplace, visit HealthCare.gov/exemptions. **HCTT-2014-13**.

HEALTH SAVINGS ACCOUNTS. For tax years beginning after December 31, 2014, the maximum annual HSA is the indexed statutory amount, without reference to the deductible of the high deductible health plan. For calendar year 2015, the limitation on deductions under I.R.C. § 223(b)(2)(A) for an individual with self-only coverage under a high deductible health plan is $3,350 ($6,650 for family coverage). For calendar year 2015, a "high deductible health plan" is defined under I.R.C. § 223(c)(2)(A) as a health plan with an annual deductible that is not less than $1,300 for self-only coverage or $2,600 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed $6,450 for self-only coverage or $12,900 for family coverage. **Rev. Proc.**

2014-30, I.R.B. 2014-20.

HOBBY LOSSES. The taxpayer was employed as a medical doctor and the taxpayer's spouse was not employed. The couple became Amway distributors and filed Schedule C for their income and expenses from the activity, resulting in seven years of losses from the activity. The taxpayer performed most of the activities for selling the Amway products and recruiting new distributors and the spouse performed office duties. The court held that the Amway activity was not entered into with the intent to make a profit because (1) although the taxpayers kept accurate records of the activity, the taxpayers did not use the records to change the operation to make it profitable; (2) the taxpayer did not have any expertise in direct marketing; (3) the taxpayer's medical practice prevented the taxpayer from expending much time on the activity; (4) the activity produced only significant losses each year and no profits; (5) the losses offset income from other sources; and (6) the taxpayer used the activity to meet with friends and family members, resulting in personal pleasure for the taxpayer. **Mikhail v. Comm'r, T.C. Summary Op. 2014-40**.

INCOME. The taxpayer was a graduate student who had received a fellowship grant for tuition and mandatory school fees plus a cash stipend. The taxpayer also received payments from a company which had received a tax-free grant to perform research. The taxpayer excluded both amounts from taxable income arguing (1) the stipend was used to pay student loans and expenses and (2) the research grant came from tax-free funds and was spent on qualified tuition expenses. The court held that the taxpayer failed to prove that the stipend was spent on qualified educational expenses; therefore the stipend was taxable income. The court also held that the research grant funds were paid to the taxpayer as compensation for research as an independent contractor; therefore, the payment was taxable as self-employment income. **Wang v. Comm'r, T.C. Summary Op. 2014-39**.

LIKE-KIND EXCHANGES. The taxpayer and two affiliate companies separately owned commercial office buildings. All three entities sought to purchase a new property through a reverse like-kind exchange under the safe harbor provisions of Rev. Proc. 2000-37, 2000-2 C.B. 308. Each will enter into a qualified exchange accommodation arrangement with an exchange accommodation titleholder not related to the taxpayer or the affiliates. The IRS ruled that the taxpayer's arrangement to acquire the property in whole or in part constitutes a qualified exchange accommodation arrangement, as defined in Rev. Proc. 2000-37, separate and distinct from the qualified exchange accommodation arrangements entered into by the affiliates, with separate application of the identification rules of Treas. Reg. § 1.1031(k)-1(c)(4). **Ltr. Rul. 201416006, Jan. 17, 2014**.

OFFERS IN COMPROMISE. The taxpayer was assessed unpaid trust fund recovery penalty liabilities of $27,871.46. The taxpayer filed a Form 636, Offer in Compromise with an offer to pay $1,357. In the information provided to the IRS, the taxpayer listed a 25 percent interest in a farm also owned by the taxpayer's brothers. The information included the property tax assessed value of the farm and a value of the taxpayer's 25 percent interest, if it could be sold. The taxpayer, however, claimed that the farm could not be partitioned and the 25 percent interest could not be sold. The IRS rejected the offer in compromise and the taxpayer appealed. The IRS had determined that the taxpayer had over $20,000 in equity in the farm; therefore, the collection potential was significantly higher than the offer in compromise amount. The court noted that the taxpayer provided no written evidence or testimony of the brothers to support the claim that the farm could not be partitioned and the taxpayer's interest sold. The court held that the taxpayer failed to show that the IRS abused its discretion in denying the offer in compromise. **Buchanan v. Comm'r, T.C. Memo. 2014-68**.

PASSIVE ACTIVITY LOSSES. The taxpayer purchased real property for $1,000,000 and financed the purchase with a recourse mortgage of $1,000,000. The taxpayer leased the property to a third party. The rental activity was a passive activity within the meaning of I.R.C. § 469(c), and the real property constituted the taxpayer's entire interest in the passive activity. The taxpayer had no other passive activities. The rental property accumulated net losses of $100,000 over three years that were suspended under I.R.C. § 469(a) and carried forward under I.R.C. § 469(b). The taxpayer defaulted on the debt and the lender foreclosed the mortgage. The fair market value of the property at the time of foreclosure was $825,000, the taxpayer's adjusted basis in the property was $800,000, and the remaining balance on the debt was $900,000 at the time of the foreclosure. The taxpayer was insolvent with liabilities exceeding assets by $200,000 at the time of the foreclosure. The mortgagee canceled the remaining $75,000 debt after the foreclosure, resulting in $25,000 of gain on the foreclosure ($825, 000 FMV - $800,000 adjusted basis), and the taxpayer had $75,000 discharge of indebtedness income ($900,000 debt - $825,000 FMV) that was excludable from gross income under I.R.C. § 108(a)(1)(B). In a Chief Counsel Advice letter, the IRS ruled that the taxpayer has disposed of the property in a fully taxable transaction under I.R.C. § 1001 and realized and recognized $25,000 of gain on the foreclosure. Thus, the transaction was a fully taxable transaction for purposes of I.R.C. § 469(g)(1)(A), and the $100,000 of suspended passive losses were treated as losses not from a passive activity under I.R.C. § 469(g)(1)(A). Additionally, the taxpayer may exclude the $75,000 discharge of indebtedness income from the cancellation of the recourse mortgage under I.R.C. § 108(a)(1)(B) because the taxpayer was insolvent to the extent of $200,000. The IRS also ruled that the discharge of indebtedness excluded from income does not reduce the freed up passive activity losses because the losses were no longer suspended loss carryovers subject to the tax attribute reduction. **CCA 201415002, Feb. 11, 2014**.

The taxpayer was unemployed but owned four rental properties. The taxpayer did not elect to treat the four properties as one activity and reported losses for two tax years. After an audit was commenced, the taxpayer constructed a calendar of activities spent on the rental properties; however, many of the items were incomplete, failed to identify which property was involved, and the nature of the activity. The court held that the calendar was insufficient to prove that the taxpayer spent more than 100 hours on any individual property; therefore, the taxpayer did not materially participate in any of the rental activities and the losses

were all passive activity losses. **Billeci v. Comm'r, T.C. Summary Op. 2014-38**.

PASSIVE FOREIGN INVESTMENT COMPANIES. The IRS has issued a notice which announces that the Department of the Treasury and the IRS will amend the regulations under I.R.C. § 1291 to provide guidance concerning the treatment of United States persons that own stock of a passive foreign investment company (PFIC) within the meaning of I.R.C. § 1297(a) through: an organization or an account that is exempt from tax under I.R.C. § 501(a) because it is described in I.R.C. § 501(c), 501(d), or 401(a); a state college or university described in I.R.C. § 511(a)(2)(B); a plan described in I.R.C. § 403(b) or 457(b); an individual retirement plan or annuity as defined in I.R.C. § 7701(a)(37); or a qualified tuition program described in I.R.C. § 529 or 530. I.R.C. § 1291 imposes a special tax and interest charge on a U.S. person that is a shareholder of a PFIC and receives an excess distribution (within the meaning of I.R.C. § 1291(b)) from the PFIC or recognizes gain derived from a disposition of the PFIC that is treated as an excess distribution (within the meaning of I.R.C. § 1291(a)(2)). I.R.C. § 1298(a) sets forth attribution rules that treat a U.S. person as the owner of PFIC stock that is owned by another person. The I.R.C. § 1298(a) attribution rules will not apply to treat stock owned (or treated as owned) by a U.S. person as owned by any other person, except to the extent provided in regulations. I.R.C. § 1298(a)(1)(B). I.R.C. § 1298(f) provides that a U.S. person that is a shareholder of a PFIC must file an annual report containing the information required by the Secretary. **Notice 2014-28, 2014-1 C.B. 990**.

SAFE HARBOR INTEREST RATES
May 2014

	Annual	Semi-annual	Quarterly	Monthly
		Short-term		
AFR	0.33	0.33	0.33	0.33
110 percent AFR	0.36	0.36	0.36	0.36
120 percent AFR	0.40	0.40	0.40	0.40
		Mid-term		
AFR	1.93	1.92	1.92	1.91
110 percent AFR	2.12	2.11	2.10	2.10
120 percent AFR	2.31	2.30	2.29	2.29
		Long-term		
AFR	3.27	3.24	3.23	3.22
110 percent AFR	3.59	3.56	3.54	3.53
120 percent AFR	3.93	3.89	3.87	3.86

Rev. Rul. 2014-13, I.R.B. 2014-19.

SELF-EMPLOYMENT. The taxpayer was employed full time for part of the tax year as a manager of a home for disabled adults. Although the employer considered the taxpayer an independent contractor and filed a Form 1099-MISC with the taxpayer, the taxpayer argued that the taxpayer was an employee and not liable for self-employment taxes. The court held that the taxpayer was an employee because the employer exercised substantial control over the taxpayer's work; the taxpayer had no expenses or investment in the business; the taxpayer received an hourly wage and no share of the profits or losses; the taxpayer's work was integral to the business; the business owner had the right to discharge the taxpayer; and the employment was permanent. **Rahman v. Comm'r, T.C. Summary Op. 2014-35**.

SECURED TRANSACTIONS

AGRICULTURAL LIENS. The debtor operated a "feeder to finish" pig operation on two farms. The debtor granted a security interest in "Inventory, Chattel Paper, Accounts, Equipment, General Intangibles, Farm Products, Livestock (including all increases and supplies) and Farm Equipment" to a bank to secure a loan. The debtor granted a security interest in all livestock and proceeds to a second bank. Both banks' security interests were perfected. The debtor used the second loan to purchase pigs but there was no evidence where the pigs were placed or whether the debtor owned other pigs at that time. The plaintiff feed supplier provided feed to the debtor who also granted a security interest in "farm products, crops, receivables, inventory, and all proceeds and products therefrom which are now owned and hereafter acquired" to secure the amounts owed for the feed. The supplier perfected the security interest by filing financing statements twice during the supplying of feed. There was evidence that the second bank made payments to the feed supplier. The debtor sold about half of the pigs and the proceeds checks were made out to the second bank, the debtor and the feed supplier. The feed supplier claimed that its lien had priority under Iowa Code 570A.5. The bank argued that the supplier had only an agricultural lien and that the statute did not provide for the lien to apply to the proceeds of collateral. Although the court noted that the statute did appear to treat agricultural liens differently from other security interests, the court held that interpretation would produce unreasonable results that violated the purpose of the agricultural lien to provide feed to maintain livestock collateral. The court noted that, if an agricultural lien did not apply to proceeds, the lien holder would be more likely to seek possession of the pigs before sale. Thus, the court held that agricultural liens under Iowa Code 570A.5 applied to the proceeds from the sale of the debtor's pigs. ***In re* Schley, 2014 Bankr. LEXIS 1724 (Bankr. N.D. Iowa 2014)**.

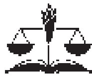
AGRICULTURAL TAX SEMINARS

by Neil E. Harl

On the back cover, we list the agricultural tax seminars coming up in the spring of 2014. Here are the cities and dates for the seminars later this summer and fall 2014:

June 23-24, 2014 - Parke Regency, Bloomington, IL
June 25-26, 2014 - Hilton Garden Inn, Indianapolis, IN
August 25-26, 2014 - Quality Inn, Ames, IA
August 27-28, 2014 - Holiday Inn, Council Bluffs, IA
September 4-5, 2014 - Honey Creek Resort, Moravia, IA
September 15-16, 2014 - Courtyard Hotel, Moorhead, MN
September 18-19, 2014 - Ramkota Hotel, Sioux Falls, SD
October 2-3, 2014, Holiday Inn, Rock Island, IL
October 6-7, 2014 - Best Western, Clear Lake, IA
October 13-14, 2014 - Doubletree Hotel, Wichita, KS
November 24-25, 2014 - Adam's State Univ., Alamosa, CO

Each seminar will be structured the same as the seminars listed on the back cover of this issue. More information will be posted on www.agrilawpress.com and in future issues of the *Digest*.



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AGRICULTURAL TAX SEMINARS

by Neil E. Harl

Join us for expert and practical seminars on the essential aspects of agricultural tax law. Gain insight and understanding from one of the country's foremost authorities on agricultural tax law.

The seminars will be held on two days from 8:00 am to 5:00 pm. Registrants may attend one or both days, with separate pricing for each combination. On the first day, Dr. Harl will speak about farm and ranch estate and business planning. On the second day, Dr. Harl will cover farm and ranch income tax. Your registration fee includes written comprehensive annotated seminar materials for the days attended and lunch. A discount ($25/day) is offered for attendees who elect to receive the manuals in PDF format only. **E-mail robert@agrilawpress.com** for a brochure**.**

May 5-6, 2014, Grand Island, NE Quality Inn & Conference Center, 7838 S. Highway 281, Grand Island, NE

May 29-30, 2014, Hilton Garden Inn Denver Airport, 16475 E. 40th Circle, Aurora, CO, ph. 303-371-9393

More locations and dates listed on previous page.

The topics include:

First day

FARM ESTATE AND BUSINESS PLANNING

New Legislation
Succession planning and the importance of fairness
The Liquidity Problem
Property Held in Co-ownership
- Federal estate tax treatment of joint tenancy
- Severing joint tenancies and resulting basis
- Joint tenancy and probate avoidance
- Joint tenancy ownership of personal property
- Other problems of property ownership

Federal Estate Tax
- The gross estate
- Special Use Valuation
- Property included in the gross estate
- Traps in use of successive life estates
- Basis calculations under uniform basis rules
- Valuing growing crops
- Claiming deductions from the gross estate
- Marital and charitable deductions
- Taxable estate
- The applicable exclusion amount
- Unified estate and gift tax rates
- Portability and the regulations
- Federal estate tax liens
- Undervaluations of property

Gifts
- Reunification of gift tax and estate tax
- Gifts of property when debt exceeds basis

Use of the Trust
The General Partnership
- Small partnership exception
- Eligibility for Section 754 elections

Limited Partnerships
Limited Liability Companies
- Developments with passive losses
- Corporate-to-LLC conversions
- New regulations for LLC and LLP losses

Closely Held Corporations
- State anti-corporate farming restrictions
- Developing the capitalization structure
- Tax-free exchanges
- Would incorporation trigger a gift because of severance of land held in joint tenancy?
- "Section 1244" stock

Status of the Corporation as a Farmer
- The regular method of income taxation
- The Subchapter S method of taxation, including the "two-year" rule for trust ownership of stock
- Underpayment of wages and salaries

Financing, Estate Planning Aspects and Dissolution of Corporations
- Corporate stock as a major estate asset
- Valuation discounts
- Dissolution and liquidation
- Reorganization
- Entity Sale
- Stock redemption

Social Security
- In-kind wages paid to agricultural labor

Second day

FARM INCOME TAX

New Legislation
Reporting Farm Income
- Leasing land to family entity
- Constructive receipt of income
- Deferred payment and installment payment arrangements for grain and livestock sales
- Using escrow accounts
- Payments from contract production
- Items purchased for resale
- Items raised for sale
- Crop insurance proceeds
- Weather-related livestock sales
- Sales of diseased livestock
- Reporting federal disaster assistance benefits
- Gains and losses from commodity futures, including consequences of exceeding the $5 million limit

Claiming Farm Deductions
- Soil and water conservation expenditures
- Fertilizer deduction election
- Depreciating farm tile lines
- Farm lease deductions
- Prepaid expenses
- Preproductive period expense provisions
- Regular depreciation, expense method depreciation, bonus depreciation
- Paying rental to a spouse
- Paying wages in kind
- Section 105 plans

Sale of Property
- Income in respect of decedent
- Sale of farm residence
- Installment sale including related party rules
- Private annuity
- Self-canceling installment notes
- Sale and gift combined.

Like-Kind Exchanges
- Requirements for like-kind exchanges
- "Reverse Starker" exchanges
- What is "like-kind" for realty
- Like-kind guidelines for personal property
- Partitioning property
- Exchanging partnership assets

Taxation of Debt
- Turnover of property to creditors
- Discharge of indebtedness
- Taxation in bankruptcy.

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