



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Court Rules Investors' Hard-to-Value Assets are Not Worthless

Steven C. Gist et ux. v. Commissioner, T.C. Summ. Op. 2014-1, No. 16065-12S, January 6, 2014

Bernard L. Berks et ux. v. Commissioner, T.C. Summ. Op. 2014-2, No. 26883-11S, January 6, 2014

In two nearly identical cases involving real estate partnerships sold by the same advisor, the Tax Court ruled that IRA distributions of allegedly worthless property were, in fact, not worthless and taxable to the extent of the value reported to IRS by their custodian. The taxpayers didn't present any evidence to support their argument that the property was worthless, so the IRS and the Tax Court relied on the Form 1099-R issued by the custodian when determining the taxable amount of the distributions.

The Tax Court ruled that IRA distributions of allegedly worthless property were, in fact, not worthless.

consolidated them for purposes of the trial.

Beginning in the late 1990s, J. Richard Blazer, a financial advisor, presented the Gists and the Berks with a proposal to invest their IRAs in real estate partnerships. The couples decided to invest and all four taxpayers moved existing IRA money into new self-directed IRAs with Trust Company of America (TCA) as the custodian. The IRA funds were then invested in various real estate partnerships in exchange for promissory notes that had high interest rates, which would be paid only if the underlying property was sold or developed.

Mr. Blazer recommended the couples open the self-directed IRAs with TCA as custodian because TCA accepts promissory notes as IRA investments and he had a good working relationship with the firm. He instructed TCA to value the promissory notes at book value for valuation purposes.

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Guest IRA Expert

**Carol Schmidlin, RFC
President,
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Facts of the Cases

The *Gist* and *Berks* cases were virtually identical, so the Tax Court

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