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James Caan's Estate Owes Big Tax Bill Due to Rollover Error

The jokes began as soon as the court decision came out: "The Godfather made the IRS an offer it could refuse." "Sonny Corleone shot down again." "Estate of James Caan whacked in tax case."

Yet, it is doubtful that the Tax Court's decision in [Estate of James Caan et al v. Commissioner, No. 14783-18; 161 T.C. No. 6.](#), released on October 18, 2023, was very funny to the heirs of the late actor James Caan, most famous for his role as Sonny Corleone in *The Godfather*. The Tax Court agreed with the IRS that because of violations of the IRA rollover rules by Caan before his death, the estate owed close to \$1 million in taxes and penalties. The judge found that Caan's rollover failed because it violated the same property rule — *a mistake that cannot be fixed* — and also the 60-day rollover rule. (Amazingly, Caan's high-priced, Beverly Hills-based financial advisor was apparently unaware of these rules.) The judge also concluded that the IRS acted properly when it denied Caan's request to extend the 60-day deadline.

Facts of the Case

Before his death in 2022, James Caan owned two traditional IRAs and invested a portion of one in a partnership interest in a hedge fund.

The custodian of his IRAs was UBS. IRS rules require custodians to provide year-end valuations of alternative IRA assets, such as hedge funds. In 2015, despite numerous attempts, UBS was unable to obtain a 2014 year-end valuation from the hedge fund. Meanwhile, Caan's financial advisor left UBS and joined Merrill Lynch, and he persuaded Caan to transfer his IRAs to Merrill Lynch. All of the assets in both IRAs were transferred, except for the hedge fund interest which temporarily remained at UBS, because it was not eligible for an Automated Customer Account Transfer (ACAT).

Because of its failure to receive a valuation, UBS resigned as custodian of the remaining IRA funds (the hedge fund interest) and on November 25, 2015, it made an in-kind distribution of the hedge fund interest to Caan. In December 2015, UBS sent a letter to Caan warning him that he had 60 days from November 25 to complete a rollover; if he failed to do so, the distribution would be taxable to him. UBS subsequently issued a 2015 [1099-R](#) to Caan which valued the hedge fund distribution at \$1,910,903, which was its 2013 year-end fair market value.

Caan's 2015 federal income tax return reported a total of \$2,299,567 in IRA distributions, including the \$1,910,903

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