SUPREME COURT OF MINNESOTA

Jennifer L. Mandel and Eric P. Mandel v. Commissioner of Revenue

888 N.W.2d 144 (Minn. 2016) · No. A16-0725 · Decided December 14, 2016

SUMMARY

The Minnesota Supreme Court affirmed the tax court's determination that the Mandels' post-casualty appraisal was not a competent appraisal under Treasury Regulation § 1.165-7(a)(2)(i). The court held that the appraisal improperly included future improvements and temporary buyer resistance to water-damaged property in calculating the casualty loss. The court also upheld summary judgment for the Commissioner of Revenue.

CASE DETAILS

COURT	Supreme Court of Minnesota
WRITING FOR THE COURT	Gildea, Chief Justice
JURISDICTION	Minnesota
DECIDED	December 14, 2016
DOCKET	A16-0725
DISPOSITION	affirmed
PROCEDURAL POSTURE	Relators appealed the Minnesota Tax Court's decision upholding the Commissioner's partial disallowance of their casualty-loss deduction and granting the Commissioner summary judgment.
STANDARD OF REVIEW	Summary-judgment decisions are reviewed to determine whether genuine issues of material fact exist and whether the lower court correctly applied the law. Application of law is reviewed de novo. Because the parties filed cross-motions for summary judgment, they tacitly agreed that no genuine issues of material fact existed.
PRECEDENTIAL VALUE	Published precedential opinion of the Supreme Court of Minnesota.
PARTIES	Jennifer L. Mandel, Eric P. Mandel v. Commissioner of Revenue

TOPICS

tax deductions · income tax · tax court procedure · summary judgment · appellate procedure

PRACTICE AREAS

State taxation | Income taxation | Casualty-loss deductions | Appellate procedure

QUESTIONS PRESENTED

1. Whether the Mandels' post-casualty appraisal was a competent appraisal under Treas. Reg. § 1.165-7(a)(2)(i).
2. Whether the Minnesota Tax Court properly granted summary judgment to the Commissioner.

HOLDINGS

1. A competent appraisal for purposes of Treas. Reg. § 1.165-7(a)(2)(i) must value the property in accordance with the applicable Treasury regulations. An appraisal is not competent when it includes future capital improvements that do not repair existing casualty damage or temporary buyer resistance arising from psychological stigma associated with recently water-damaged property.
2. The Tax Court properly granted summary judgment to the Commissioner because there were no genuine issues of material fact, the appraisal was not competent under the governing regulation, and the Mandels lacked evidence supporting their claimed casualty-loss deduction after the appraisal was excluded.

KEY QUOTATIONS

> *"Thus, a "competent appraisal" for the purposes of Treas. Reg. § 1.165-7(a)(2)(i) values the property in accordance with the applicable treasury regulations."* (at 147)

> *"Allowable casualty losses instead are limited to "the actual loss resulting from damage to the property.""* (at 151)

> *"Because the appraisal improperly considered these two factors, we hold that the tax court did not err in determining that the Reliatel appraisal was not a "competent appraisal" under Treas. Reg. § 1.165-7(a)(2)(i)."* (at 154)

FACTUAL BACKGROUND

The Mandels purchased a Minnetonka home for $391,000, and rainwater later damaged its foundation wall, laundry-room floors and walls, and related components. They repaired the property at a cost of $27,411, then obtained retrospective appraisals valuing the property at $400,000 before the casualty and $298,000 afterward. The appraisal also included estimated future landscaping costs and a multiplier based on temporary buyer resistance to water-damaged homes. The Commissioner disallowed most of the resulting casualty-loss deduction.

PROCEDURAL HISTORY

Following an audit, the Commissioner reduced the Mandels' claimed casualty-loss deduction. The Mandels appealed to the Minnesota Tax Court, which held on cross-motions for summary judgment that their post-casualty appraisal was not a competent appraisal under Treas. Reg. § 1.165-7(a)(2)(i) and granted summary judgment to the Commissioner. The Minnesota Supreme Court affirmed.

DISPOSITION

affirmed

CASES CITED

- Mandel v. Commissioner of Revenue, No. 8787-R, 2016 WL 903301 (Minn. T.C. Mar. 8, 2016)
- Kamanski v. Commissioner, 29 T.C.M. (CCH) 1702, 1706 (1970)
- Solomon v. Commissioner, 39 T.C.M. (CCH) 1282, 1284 (1980)
- Pulvers v. Commissioner, 407 F.2d 838, 839 (9th Cir. 1969)
- Kamanski v. Commissioner, 477 F.2d 452, 452-53 (9th Cir. 1973)
- Chamales v. Commissioner, 79 T.C.M. (CCH) 1428, 1431 (2000)
- Ford v. Commissioner, 33 T.C.M. (CCH) 496, 498 (1974)
- Thornton v. Commissioner, 47 T.C. 1 (1966)
- Peterson v. Commissioner, 30 T.C. 660, 664-65 (1958)
- Finkbohner v. United States, 788 F.2d 723, 724-27 (11th Cir. 1986)
- Conner v. United States, 439 F.2d 974, 975, 980-81, 986 (5th Cir. 1971)
- Brookfield Trade Center, Inc. v. County of Ramsey, 584 N.W.2d 390, 392-93 (Minn. 1998)
- American Family Mutual Insurance Co. v. Thiem, 503 N.W.2d 789, 790 (Minn. 1993)
- Melrose Gates, LLC v. Chor Moua, 875 N.W.2d 814, 819 (Minn. 2016)
- Medica, Inc. v. Atlantic Mutual Insurance Co., 566 N.W.2d 74, 77 (Minn. 1997)
- Lubbers v. Anderson, 539 N.W.2d 398, 401 (Minn. 1995)