

# Failing to Complete Taxes Properly Cost Entrepreneur \$18.5 Million in Tax Deductions

By Joseph M. Donegan on June 25th, 2012 Posted in Business Tax, IRS

A judge with the U.S. Tax Court recently sided with the Internal Revenue Service and rejected an \$18.5-million tax deduction claimed by a prominent businessman for charitable contributions.

Joseph Mohamed, who is a successful real estate developer, appraiser and entrepreneur in California, donated several pieces of real estate to a charitable remainder trust in 2003 and 2004, claiming \$18.5 million in charitable deductions. These trusts allow owners to claim immediate deductions on the contributions, despite collecting income on the assets. After the owners' death, the remainder of the trust is given to charity.

However, Mohamed completed his own taxes and failed to submit a qualified appraisal that provided an up-to-date value of the assets. This triggered an audit, which prompted the Mohameds to have the assets appraised. The results of the valuation revealed the properties were actually worth \$20.3 million, but the IRS rejected the deductions due to the Mohamed's failure to submit the proper forms.

U.S. Tax Judge Mark Holmes ruled in favor of the IRS.

“We recognize that this result is harsh – a complete denial of charitable deductions to a couple that did not overvalue, and may well have undervalued, their contributions,” Holmes wrote in his court opinion.

However, Holmes explained that, in accordance with federal tax law, the Mohameds did not comply with substantiation requirements and the deduction was invalid.

Noting that the law is clear, Holmes wrote that “a taxpayer relies on his private interpretation of a tax form at his own risk.”

The case highlights the need of business owners who are making substantial tax decisions to consult an attorney during filing season to ensure they don't overlook small errors that could result in substantial losses following an audit.