

BEFORE THE OFFICE OF TAX APPEALS

STATE OF CALIFORNIA

IN THE MATTER OF THE APPEAL OF, )  
 )  
S. LEDSON and A. LEDSON, ) OTA NO. 221111831  
 )  
 )  
 APPELLANTS. )  
 )  
 )  
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TRANSCRIPT OF ELECTRONIC PROCEEDINGS

State of California

Thursday, October 17, 2024

Reported by:  
ERNALYN M. ALONZO  
HEARING REPORTER

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Transcript of Electronic Proceedings,  
taken in the State of California, commencing  
at 1:32 p.m. and concluding at 1:58 p.m. on  
Thursday, October 17, 2024, reported by  
Ernaly M. Alonzo, Hearing Reporter, in and  
for the State of California.

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APPEARANCES:

Panel Lead: ALJ NATASHA RALSTON

Panel Members: ALJ TERESA STANLEY  
ALJ CHERYL AKIN

For the Appellant: S. LEDSON  
MICHAEL SCHINNER

For the Respondent: STATE OF CALIFORNIA  
FRANCHISE TAX BOARD  
  
SONIA WOODRUFF  
TERESA KAYATTA

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I N D E X

E X H I B I T S

(Appellant's Exhibits 1-14 were received into evidence at page 7.)

(Department's Exhibits A-N were received into evidence at page 8.)

P R E S E N T A T I O N

	<u>PAGE</u>
By Mr. Schinner	10
By Ms. Woodruff	16

W I T N E S S T E S T I M O N Y

	<u>PAGE</u>
By Mr. Ledson	12

C L O S I N G S T A T E M E N T

	<u>PAGE</u>
By Mr. Schinner	20

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California; Thursday, October 17, 2024

1:32 p.m.

JUDGE RALSTON: We are opening the record for the hearing in the Appeal of Ledson, Office of Tax Appeals Case No. 221111831. Today's date is October 15th -- or October 17th, 2024, and the time is approximately 1:32 p.m.

Today's hearing is being held by a panel of three Administrative Law Judges. My name is Judge Ralston, and I am the Administrative Law Judge who will be conducting the hearing for this case. Also present on this panel are Judge Stanley and Judge Akin. After the hearing, all three judges will confer and produce a written decision. Any judge on this panel may ask questions or otherwise, participate to ensure that we have all the information needed to decide this appeal.

The Office of Tax Appeals is not a court but is an independent appeals body, which is staffed by tax experts and is independent of any tax agency, including the Franchise Tax Board or FTB.

Also present is our stenographer Ms. Alonzo, who is reporting this hearing verbatim. To ensure that we have an accurate record, we ask that everyone speaks one at a time and do not speak over each other. Even if you

1 think you know what we're going to ask, please wait for  
2 the person to finish speaking so that we can ensure that  
3 we have a clear record. When needed, Ms. Alonzo will stop  
4 the hearing process and ask for clarification. After the  
5 hearing, Ms. Alonzo will produce the official hearing  
6 transcript, which will be available on the Office of Tax  
7 Appeals website.

8 I'm going to ask the parties to please introduce  
9 themselves and state who they represent for the record,  
10 starting with Appellants' representative Mr. Schinner.

11 MR. SCHINNER: Yes. Good morning. Good  
12 afternoon. Michael Schinner on behalf of Appellant Steve  
13 Ledson -- Steve and Amy Ledson, the taxpayers.

14 JUDGE RALSTON: Thank you.

15 And FTB.

16 MS. WOODRUFF: Good morning -- or good afternoon.  
17 I'm Sonia Woodruff on behalf of Respondent Franchise Tax  
18 Board.

19 JUDGE RALSTON: Thank you.

20 MS. WOODRUFF: And with me today is Teresa  
21 Kayatta. She's also representing the Franchise Tax Board.

22 JUDGE RALSTON: Thank you.

23 So this hearing is being live streamed to public  
24 and is also being reported. The transcript and the video  
25 recording are part of the public record and will be posted

1 on the Office of Tax Appeals website. So that being said,  
2 I ask that you please don't show any confidential  
3 information on the screen.

4 We held a prehearing conference in this matter on  
5 September 23rd, 2024, and Appellant has submitted exhibits  
6 labeled 1 through 13.

7 Ms. Woodruff, did you receive all of the  
8 Appellants' exhibits?

9 MS. WOODRUFF: Yes, I believe I did. They are  
10 the same exhibits?

11 JUDGE RALSTON: Yes. Or -- well, yeah. For  
12 Mr. Schinner, they are the same exhibits.

13 MS. WOODRUFF: Okay.

14 JUDGE RALSTON: And, for the record, Mr. Schinner  
15 is nodding his head, so yes.

16 And then did you have any objections to  
17 Mr. Schinner's exhibits?

18 MS. WOODRUFF: I don't have any objections.

19 JUDGE RALSTON: Thank you.

20 So the Appellants' Exhibits 1 through 14 are  
21 admitted without objection.

22 (Appellant's Exhibits 1-14 were received into  
23 evidence by the Administrative Law Judge.)

24 JUDGE RALSTON: And, Mr. Schinner, did you  
25 receive Respondent's Exhibits A through N?

1 MR. SCHINNER: Yes, Your Honor.

2 JUDGE RALSTON: Okay. And just, Ms. Woodruff, is  
3 that correct, just Exhibits A through N?

4 MS. WOODRUFF: That's correct.

5 JUDGE RALSTON: Thank you.

6 And, Mr. Schinner, did you have any objections to  
7 Respondent's exhibits?

8 MR. SCHINNER: No, Your Honor.

9 JUDGE RALSTON: Thank you. Respondent's Exhibits  
10 A through N are admitted without objection.

11 (Department's Exhibits A-N were received into  
12 evidence by the Administrative Law Judge.)

13 JUDGE RALSTON: Mr. Schinner, it looks like we  
14 have Mr. Ledson here, and he is still planning to testify  
15 under oath?

16 MR. SCHINNER: Yes, Your Honor.

17 JUDGE RALSTON: Okay. And is that the only  
18 witness?

19 MR. SCHINNER: Steve, I assume it's just you and  
20 not Amy, your wife; is that correct?

21 MR. LEDSON: Yes, it's just me.

22 JUDGE RALSTON: Okay. Thank you.

23 So before we begin, I will swear Mr. Ledson in.

24 And just to double check, Ms. Woodruff, you  
25 didn't have any objections to Mr. Ledson testifying under



1 oath?

2 MS. WOODRUFF: I do not.

3 JUDGE RALSTON: Thank you.

4 So Appellant will have 60 minutes to present  
5 their case and to provide witness testimony. After that,  
6 Respondent FTB will have 15 minutes to cross-examine the  
7 witness. And after that, FTB will then have 30 minutes  
8 for their presentation, and then the Appellant will have  
9 10 minutes for a rebuttal. The Panel Members may have  
10 questions at any point during this process.

11 So does anyone have any questions before we move  
12 on to our opening presentations?

13 Okay. Seeing none.

14 Mr. Ledson, could you please raise your right  
15 hand.

16  
17 S. LEDSON,

18 produced as a witness, and having been first duly sworn by  
19 the Administrative Law Judge, was examined, and testified  
20 as follows:

21

22 JUDGE RALSTON: Okay. Mr. Schinner, please begin  
23 when you're ready.

24 MR. SCHINNER: Thank you, Your Honor. I don't  
25 think we'll be taking a lot of time as allotted.



1 get into with the conformity rules is something that the  
2 taxpayer was not aware of this nuance. And, again, as an  
3 equitable estoppel matter, he relied in good faith on  
4 these changes in California's reliance of the -- or the  
5 conformance to section 170 and the regulations their  
6 under.

7 So we're looking for the court to -- or this body  
8 to recognize that in the interest of good policy promoting  
9 charitable deductions, promoting the conservation  
10 easements that Mr. Ledson generously offered to the State,  
11 that the State reciprocate and acknowledge that it's a  
12 good policy to allow these taxpayers to take the full  
13 deduction allowed under section 170, including the 15-year  
14 extension.

15 I'm going to -- unless -- you can advise. Are we  
16 changing the -- the procedure to allow opening statements  
17 now, or just I go right into Mr. Ledson's testimony.

18 JUDGE RALSTON: You can do your opening statement  
19 and then move in to Mr. Ledson's testimony.

20 MR. SCHINNER: Okay. Thank you, Your Honor.

21 I will now allow Mr. Ledson to provide a general  
22 background of the circumstances relating to his property,  
23 his charitable deduction, his -- and the -- the situation  
24 involving his tax deduction. I think he can give you the  
25 mindset that goes into the equitable arguments we're

1 making. So I'll turn it over to Steve to give us the  
2 background of this charitable conservation easement.

3 MR. LEDSON: Thank you, Michael, for that.

4

5 WITNESS TESTIMONY

6 MR. LEDSON: I just want to give you a little bit  
7 of background on our family, just brief. Our family came  
8 here in the 1860s to California. They've -- we have a  
9 charitable foundation for children where we've raised  
10 millions of dollars to help build playgrounds and on and  
11 on and on of things we've done for children here, besides  
12 being assistant to the governor of California and state  
13 senators in Nevada and throughout the United States of  
14 America in the government. We've worked really hard to  
15 try to preserve California's great state, not just in  
16 contributing money, but in historical landmarks and  
17 anything we can do as a family. I think the family is  
18 pretty well known in California.

19 So we were able to purchase a piece of property  
20 that's in Sonoma that was going to be subdivided into  
21 bunch of different strange little houses, and the city was  
22 all up in arms about it. And they came to me and said,  
23 you know, "Mr. Ledson that's a beautiful piece of  
24 property. It's got a historical landmark on it. It  
25 should be a federal landmark, not just the state, federal

1 and city landmark."

2 And so I ended up purchasing the piece of  
3 property, and lo and behold, when we were under the house,  
4 we found a time capsule, and it had pictures from the  
5 1800s. The house is built in 1870. It had all the  
6 slides, pictures of San Francisco, but a lot of detail on  
7 the house that had fallen off and wasn't available. So we  
8 made a lot of pieces for the home and put it back to its  
9 original condition. It got a lot of write-ups in  
10 different papers. A lot of people on the city counsel,  
11 board of supervisors were really impressed with the house.

12 I was asked to preserve it and make it a historic  
13 landmark. So in working with my accountants and tax  
14 attorneys, they explained to me what the benefits and pros  
15 and cons would be of that. The property is over three  
16 acres, and it could be six lots. As anybody would know,  
17 it's a valuable property in Sonoma, and California is  
18 quite expensive today. But I was willing to give up that  
19 because it meant more to me at that time to have this be a  
20 historic landmark. I felt like that time capsule and me  
21 being able to purchase this piece of property was -- I was  
22 given that opportunity. It wasn't just something I had to  
23 work for but it's like, here, we want you to do this.

24 So we devalued the property. Not only that, but  
25 spent at least a million dollars in bringing this house

1 back to its immaculate original condition. And we did  
2 that based on what California has done over the years in  
3 following the state and federal government and their  
4 deductions for that. If I would have known that anything  
5 like this would have happened, I probably wouldn't have  
6 done it.

7 It seems -- you know, my cousin was assistant to  
8 the governor of State of California, so I have a pretty  
9 good connection with a lot of different politicians. And  
10 I never -- I just -- I can't really imagine in my mind how  
11 the state would not want something like this as a historic  
12 landmark. I'm sure you probably have all Googled the  
13 property and looked at on Google maps and done your study  
14 and background on our family and on this property. But  
15 it's a beautiful piece of property. People love it.  
16 People from all over the United States of America come by  
17 and view this. There's tours that go here everyday. It's  
18 part of Sonoma. It's part of the State of California, and  
19 it's part of the United States of America, and I'm very  
20 proud of it.

21 I'm here to answer any other questions, but today  
22 I want to ask you to please honor the tax deductions that  
23 we've taken. I think we've gone beyond what most people  
24 would do with a historic landmark like this. And I'd ask  
25 you to really consider what we've done, and what I'm

1 asking of you. I'll leave it at that and see if I can  
2 answer any questions you might have.

3 JUDGE RALSTON: We thank you, Mr. Ledson.

4 Mr. Schinner, does that conclude your opening?

5 MR. SCHINNER: Yes, Your Honor.

6 JUDGE RALSTON: Thank you.

7 Ms. Woodruff, did you have any questions for  
8 Mr. Ledson?

9 MS. WOODRUFF: I do not have any questions at  
10 this time.

11 JUDGE RALSTON: Okay. Thank you.

12 Judge Stanley, did you have any questions for  
13 Mr. Schinner or Mr. Ledson?

14 JUDGE STANLEY: No, I don't have any questions.  
15 Thank you.

16 JUDGE RALSTON: And, Judge Akin, did you have any  
17 questions?

18 JUDGE AKIN: This is Judge Akin speaking. No  
19 questions from me, but thank you for your testimony,  
20 Mr. Ledson.

21 MR. LEDSON: Thank you.

22 JUDGE RALSTON: Thank you.

23 Ms. Woodruff, you can begin when you're ready.

24 ///

25 ///





1           Really, the sole question is the relevant carry  
2 forward period. And Appellants' confusion regarding the  
3 correct carry forward period is somehow maybe somehow  
4 understandable because it relates to a change in federal  
5 law that was never made into California law. Prior to  
6 2006, under federal law, individuals could carry forward  
7 any excess charitable contribution amounts from a  
8 conservation easement for up to five years. In 2006,  
9 Congress increased the amounts that could be deducted for  
10 qualified conservation easements from 30 percent of a  
11 taxpayer's contribution base up to 50 percent. And as  
12 relevant here, it extended the carry-over period from 5 to  
13 15 years.

14           The newly enacted IRC section 170(b)(1)(E) clause  
15 (ii) applied for conservation easements in taxable years  
16 beginning after December 31st, 2005. And although that  
17 new provision was a temporary provision, Congress extended  
18 it periodically over the course of the next nine years.  
19 They permanently enacted the 15-year carry forward as of  
20 December 18, 2015. So that is the rule for conservation  
21 easement carry forward for federal purposes. Now,  
22 California conforms to the Internal Revenue Code as of a  
23 particular date; and that's noted in Revenue & Taxation  
24 Code section 17024.5, which is our conformity statute.

25           And while California law does generally conform

1 to the Internal Revenue Code, it is critical to take note  
2 of the specified conformity date because that often can  
3 result in a lag or a mismatch, such as here, between  
4 California law and federal law changes. So in the case of  
5 this extended carry-over provision, California never  
6 conformed. So for contributions occurring in 2008, such  
7 as this one, California conforms to the Internal Revenue  
8 Code as of January 1st, 2005. The 2005 code contained a  
9 five-year carry-over provision. And so five years is the  
10 only allowable carry-over period here available to these  
11 taxpayers.

12 And it is also notable that California never  
13 conformed to the new carry-over provision in any  
14 succeeding tax year. And the reason for this is that the  
15 extended carry-over was designated is a temporary  
16 provision in the Internal Revenue Code with periodic  
17 legislative renewals. But each of those renewals  
18 contained a termination date until it was finally made  
19 permanent in December of 2015. But because of this lag in  
20 California conformity and the termination dates in the  
21 Internal Revenue Code, the version of the code California  
22 conformed with never contained an active extended  
23 carry-over.

24 So, in other words, by the time California  
25 conformed, the termination date had already passed. So,

1 for example, in tax years 2015 and after, California  
2 conformed to the Internal Revenue Code as of January 1st,  
3 2015. And the code on that date included an extended  
4 carry-over provision set to terminate on December 31st,  
5 2014. And so California never conformed to the extended  
6 carry-over provision of IRC section 170(b)(1)(E).

7 Now, Appellants have argued that Respondent's  
8 summary of 2015 federal income tax changes states that  
9 California actually did conform to the federal law change,  
10 and that assertion is factually incorrect. Appellants may  
11 be confused by the fact that Respondent's federal tax  
12 summary describes the federal law change -- rule changes  
13 for conversation easements. But the summary then goes on  
14 to state that California does not conform to that federal  
15 special rule regarding conversation easements.

16 Appellants also argue that California's  
17 nonconformity with federal law does not comply with the  
18 intent of the federal statute. And, you know, the intent  
19 of the federal statute is just not relevant here because  
20 California clearly never conformed with the extended  
21 15-year carry over period. So you really do not need to  
22 reach statutory intent or construction when the statute is  
23 clear on its face.

24 That's all of the comments that I have today, but  
25 I'm happy to take any questions you may have at the

1 correct time. Thank you.

2 JUDGE RALSTON: Thank you, Ms. Woodruff.

3 Judge Stanley, did you have any questions for  
4 Respondent?

5 JUDGE STANLEY: This is Judge Stanley speaking.  
6 I do not have any questions. Thank you.

7 JUDGE RALSTON: And, Judge Akin, did you have any  
8 questions?

9 JUDGE AKIN: Judge Akin speaking. No questions  
10 from me. Thank you.

11 JUDGE RALSTON: Thank you.

12 Mr. Schinner, you can start your rebuttal when  
13 you're ready.

14 MR. SCHINNER: Yes, Your Honor.

15

16 CLOSING STATEMENT

17 MR. SCHINNER: As Ms. Woodruff mentioned,  
18 there -- there is a mismatch and a lag with the Franchise  
19 Tax Board, the California legislation in terms of it's  
20 conformity to the federal tax laws. And so this is what  
21 creates a -- a situation where the taxpayer is trying  
22 to -- to carry out a public deed in reliance on the  
23 federal law, not knowing what the California conformity  
24 would be, other than, as I said, various collateral  
25 material, including some of the materials proffered by the

1 Respondent's own brief where they talk about the  
2 California generally conforms to section 170 with  
3 modifications.

4           These kinds of materials would not indicate to a  
5 lay person, such as Mr. Ledson, that there is a -- a  
6 mismatch or a lag between the state law and the federal  
7 law in terms of the charitable conversation easement that  
8 he generously donated to the State. He was relying on the  
9 change to the contribution base, as well as the 15-year  
10 carry-over. As he stated, if he had known that California  
11 would not conform and the materials that were proffered by  
12 the various public agencies soliciting these kinds of  
13 charitable donations, he might have -- he said he might  
14 have otherwise not made the donation.

15           So there is an estoppel argument here equitably.  
16 Mr. Ledson relied on these materials in making this  
17 donation, and his own advisers at the time touted the  
18 benefits he would receive, and it's -- I think it would be  
19 unfair to penalize him at this point. Because as  
20 Ms. Woodruff said, there's lags and mismatches between the  
21 state and the federal government. Obviously the law as --  
22 as such -- as written, he's bound by this.

23           This is an equitable argument that we're arguing  
24 the State should be estopped from receiving the benefits  
25 of this charitable donation when the -- the reliance --

1       justifiable reliance in Mr. Ledson's mind that there would  
2       be conformity to the federal government based on various  
3       collateral information he relied upon, that the State  
4       should be equitably estopped from denying the 15-year  
5       carry-over.

6               No further comments, Your Honor.

7               JUDGE RALSTON: Okay thank you, Mr. Schinner.

8               Just give me a second to catch up on my note  
9       taking.

10              Okay. It looks like we are ready to conclude  
11     this hearing.

12              So today's hearing in the Appeal of Ledson is now  
13     adjourned, and the record is closed.

14              The Panel will meet and review the submitted  
15     information and send you a written opinion of our decision  
16     within 100 days.

17              Thank you everyone for attending.

18              (Proceedings adjourned at 1:58 p.m.)

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HEARING REPORTER'S CERTIFICATE

I, Ernalyne M. Alonzo, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 30th day of October, 2024.

\_\_\_\_\_  
ERNALYN M. ALONZO  
HEARING REPORTER