



3. The deficiency, as determined by the Commissioner, is in estate tax relating to the Estate of Decedent who died on February 11, 2012. The proposed deficiency, and additions to estate tax thereon, all which are in dispute, are summarized in the following table:

Tax Year	Deficiency	IRC § 6662
02/11/2012	\$7,919,070	\$3,167,628

4. The determination of estate tax set forth in the Deficiency Notice is based on the following errors:

(a) The Commissioner erroneously increased the value of Decedent's Schedule F, Other Miscellaneous Property Not Reported Under Any Other Schedule, for intellectual property rights, in the total amount of \$22,625,914. Specifically, the Commissioner erred in increasing Decedent's Schedule F intellectual property rights, as follows:

(i) The Commissioner erroneously increased the value of Decedent's Record Royalties, Sony Music, Catalog Albums, in the amount of \$9,096,455.

(ii) The Commissioner erroneously increased the value of Decedent's Record Royalties, Sony

Music, New Album, in the amount of \$440,989.

- (iii) The Commissioner erroneously increased the value of Decedent's Record Royalties, Sony Music, Music Video Sales, in the amount of \$0.
- (iv) The Commissioner erroneously increased the value of Decedent's Digital Performance Rights Royalties, Sound Exchange, by \$1,358,330 to a value of \$2,793,950.
- (v) The Commissioner erroneously failed to decrease the value of Decedent's Name and Likeness and Merchandising Royalties, Bravado, in the amount of \$634,859.
- (vi) The Commissioner erroneously increased the value of Decedent's Motion Picture and Television Residuals, Various Sources, by \$120,537 to a value of \$594,897.
- (vii) The Commissioner erroneously increased the value of Decedent's Music Publishing Royalties by \$33,699, to a value of \$165,599.
- (viii) The Commissioner erroneously increased the value of Decedent's Rights of Publicity

Income, by \$11,522,839 to a value of \$11,711,377.

- (ix) The Commissioner erroneously increased the value of Decedent's Royalties From Other Sources by \$53,066 to a value of \$189,028.
  - (b) The Commissioner erroneously failed to allow administrative expenses incurred to the date of the Deficiency Notice on Schedules J and K of the estate tax return.
  - (c) The Commissioner erroneously asserted a gross valuation misstatement penalty under I.R.C. §§6662(g) and (h)(2)(C), in the amount of \$3,167,628.
  - (d) The Commissioner erroneously asserted an accuracy related penalty attributable to substantial estate tax valuation understatement and/or negligence under I.R.C. §6662.
5. The facts upon which the Petitioner relies as the basis of her case are as follows:
- (a) The Decedent was a musical artist who received 6 Grammys and 21 American Music Awards during her career.

- (b) Decedent died on February 11, 2012.
- (c) During Decedent's lifetime, Decedent received income from various sources in the form of royalties, residuals, and publicity rights.
- (d) On the Schedule F to Form 706 Federal Estate Tax Return, the Petitioner properly valued Decedent's intellectual property rights.
- (e) Petitioner has incurred and will continue to incur substantial expenses in conjunction with administering the Decedent's estate, including expenses in connection with defending the claims asserted by the Internal Revenue Service and others. Petitioner will establish such expenses in excess of those reported on the estate tax return and will seek additional estate tax deductions for these expenses.
- (f) The valuation of the Decedent's property as reported on Schedule F of Form 706 was accurate and was based on qualified appraisals prepared by appraisers who have substantial expertise in valuing such assets for the entertainment industry.
- (g) Petitioner made a good faith investigation with respect to the valuation of all assets reported

on the Form 706 Federal Estate Tax Return and reasonably relied on the appraisals in valuing the estate assets.

- (h) Petitioner attached six appraisals to the estate tax return.
- (i) Petitioner is not liable for any gross valuation misstatement penalties because the Petitioner acted with good faith, ordinary care and business prudence with respect to the valuations on the estate tax return.
- (j) None of the deficiencies in the Deficiency Notice are attributable to the willful or negligent failure to follow the rules, regulations or laws.
- (k) Petitioner relied on nationally-recognized and experienced accountants, attorneys and expert valuation appraisers to prepare the Form 706 Federal Estate Tax Return.

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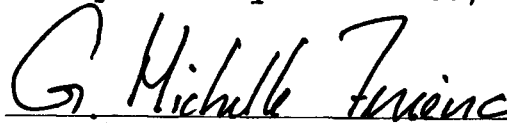
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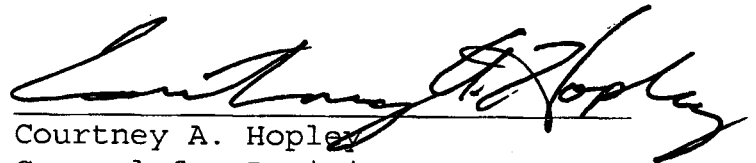
WHEREFORE, the Petitioner prays that this Court may hear this case, determine that the Deficiency Notice is void, that there is no deficiency in estate tax and penalties and give such other and further relief as the Court may deem fit and proper.

Respectfully submitted,



DATED: May 18, 2016

G. Michelle Ferreira  
Counsel for Petitioner  
Tax Court No. FG0238



Courtney A. Hopley  
Counsel for Petitioner  
Tax Court No. HC0600

Greenberg Traurig, LLP  
Four Embarcadero Center  
Suite 3000  
San Francisco, CA 94111  
Telephone: (415) 655-1300  
Facsimile: (415) 358-4883

# **EXHIBIT A**



Taxpayer: SSN:

Estate of Whitney A. Houston  
Marion P. Houston, Executor

<b>Kind of Tax:</b>	Estate Tax
<b>Date of Death</b> February 11, 2012	<b>Deficiency</b> (Increase in Tax and Penalties) \$11,086,698

Item	Increase	Decrease
Tax	\$7,919,070	
Penalty	\$3,167,628	
<b>Total</b>	<b>\$11,086,698</b>	

The maximum deduction allowable for state estate, inheritance, legacy, or succession taxes under section 2058(a) of the Internal Revenue Code is \$0.00.

The deduction in Form 3614-A is limited to the amount substantiated and actually paid, i.e. \$0.00, in accordance with section 2058(a) of the Internal Revenue Code.

Copy to Authorized Representative

Ronald Nash  
Gelfand, Rennart & Feldman, LLP  
360 Hamilton Avenue, Suite 100  
White Plains, New York 10601

G. Michelle Ferreira  
Greenberg Traurig, LLP  
4 Embarcadero Center, Suite 3000  
San Francisco, California 94111

Allen D. Altman  
Greenberg Traurig, LLP  
3333 Piedmont Road, North East, Suite 2500  
Atlanta, Georgia 30305

Form **890**  
(July 2015)

Department of the Treasury - Internal Revenue Service

**Waiver of Restrictions on Assessment and Collection  
of Deficiency and Acceptance of Overassessment -  
Estate, Gift, and Generation - Skipping Transfer Tax**  
(Please see the instructions on the back of this form)

Date Received by  
Internal Revenue Service

**Part 1 - Consent to Assessment and Acceptance of Overassessment**

I consent to the immediate assessment and collection of any deficiencies (increase in tax and penalties) and accept any overassessment (decrease in tax and penalties) shown below, plus any interest provided by law. I understand that by my signing this waiver, a petition to the United States Tax Court may not be made, unless additional deficiencies are determined.

Date of Death or Period Ending

February 11, 2012

Item	Increase	Decrease
Tax	\$7,919,070.00	\$0
Penalty 6662	\$3,167,628.00	\$0
Total	\$11,086,698.00	\$0

If the estate is required to file, with the Internal Revenue Service, evidence of payment of estate, inheritance, legacy, succession, or generation - skipping transfer taxes to any State or the District of Columbia, I understand that such evidence must be filed by \_\_\_\_\_ or the deduction for these taxes will not be allowed. I also agree to the assessment and collection of the increase in estate tax and penalties of \$ \_\_\_\_\_ based on the disallowed deduction, plus interest figured to the 30th day after \_\_\_\_\_ or until this increase is assessed, whichever is earlier.

Estate of  
Houston, Whitney E. Estate,

Executor or Administrator

Name Marion P. Houston

Signature

Date

Address

Executor or Administrator

Name

Signature

Date

Address

Donor

Name

Signature

Date

Address

**Part 2 - Deceased Spousal Unused Exclusion (DSUE) and Applicable Credit Agreement**

I agree to the increase or decrease in the total allowed Deceased Spousal Unused Exclusion (DSUE) and/or Applicable Credit by the amount shown below.

	Increase	Decrease
Applicable Credit		
DSUE	\$0.00	\$0

Donor/Executor

Name Marion P. Houston	Signature	Date
Address		

**Part 3 - Gift Tax Marital Deduction**

I agree to the increase or decrease in the usage of the gift tax marital deduction by the amount shown below.

	Increase	Decrease
Marital Deduction		
Donor		

Name	Signature	Date
Address		

**Instructions for Form 890, Waiver of Restrictions on Assessment and Collection of Deficiency and Acceptance of Overassessment - Estate, Gift, and Generation - Skipping Transfer Tax**

**Consent to Assessment and Acceptance of Overassessment**

If you consent to the assessment of the deficiencies shown in Part 1 of this form, please sign the agreement under Part 1 and return the form to limit any interest charge and expedite the adjustment to your account. Your consent will not prevent a claim for refund from being filed (after the tax has been paid) if you later believe it is warranted, nor prevent us from later determining that additional tax is owed, nor extend the time provided by law for either action.

If a claim is later filed and the Service disallows it, a suit for refund may be filed in a United States District Court or in the United States Court of Federal Claims, but a petition may not be filed with the United States Tax Court.

We will consider this waiver a valid claim for refund or credit of any overpayment due resulting from any decrease in tax and penalties determined by the Internal Revenue Service, shown on the front of this form, provided Part 1 of this form is signed and filed within the period established by law for making such a claim.

**Deceased Spousal Unused Exclusion (DSUE) and Applicable Credit Agreement**

If you agree with the increase or decrease of the Deceased Spousal Unused Exclusion (DSUE) and/or allowed credit shown in Part 2 of this form, please sign the agreement under Part 2 and return the form.

**Marital Deduction Agreement**

If you agree with the increase or decrease in the usage of the gift tax marital deduction by the amount shown in Part 3 of this form, please sign the agreement under Part 3 and return the form.

**Signature Instructions**

If the executor or administrator is a corporation, the waiver should be signed with the corporate name, followed by the signatures and titles of the corporate officers authorized to sign. An attorney or agent may sign this waiver provided the action is specifically authorized by a power of attorney which, if not previously filed, must accompany this form.

Estate of Whitney E. Houston		Date of Death February 11, 2012
Taxable Estate Plus Adjusted Taxable Gifts as Shown on:		\$13,912,671
<input checked="" type="checkbox"/> Return as Filed <input type="checkbox"/> Prior Assessment <input type="checkbox"/> Preliminary Letter Dated <input type="checkbox"/> Statutory Notice Dated		
Penalties as Shown on Return as Filed:		
Increases (Decreases) to Taxable Estate Plus Adjusted Taxable Gifts (see attached explanation of items.)		
a. Schedule F, Item 20	\$ 22,625,914	\$22,625,914
Taxable Estate Plus Adjusted Taxable Gifts as Revised		
Tax Computation	1. Tentative tax	\$36,538,585
	2. Section 2001(c)(2) increase	\$12,769,305
	3. Total tentative tax	\$0
	4. Aggregate gift taxes payable (after December 31, 1976)	\$12,769,305
	5. Subtract the amount on line 4 from the amount on line 3	\$0
	6. Unified credit against estate tax	\$12,769,305
	7. Adjustment to unified credit	\$1,772,800
	8. Allowable unified credit (subtract the amount on line 7 from the amount on line 6)	\$0
	9. Subtract the amount on line 8 from the amount on line 5 (not less than zero)	\$1,772,800
	10. Credit for state death taxes substantiated	\$10,996,505
	11. Subtract the amount on line 10 from line 9	\$0
	12. Credit for tax on prior transfers	\$10,996,505
	13. Net estate tax (subtract the amount on line 12 from the amount on line 11)	\$0
	14. Generation –skipping transfer taxes	\$10,996,505
	15. Section 4980A increased estate tax	\$0
	16. Total transfer taxes	\$0
	17. Transfer taxes assessed	\$10,996,505
	18. Increase (Decrease) in tax (subtract the amount on line 17 from the amount on line 16)	\$3,077,435
	19. Less: Additional credit for state death taxes allowable, if substantiated	\$7,919,070
	20. Increase (Decrease) in tax after state death taxes allowable (subtract the amount on line 19 from the amount on line 18)	\$0
	21. Increase (Decrease) in net penalties	\$7,919,070
	22. Increase (Decrease) in tax & penalties after state death taxes allowable	\$3,167,628
		\$11,086,698

Form 886-A (Rev. January 1994)	EXPLANATIONS OF ITEMS	Schedule number or exhibit
Name of taxpayer Estate of Whitney E. Houston	Tax Identification Number	Year/Period ended February 11, 2012

**Schedule F, Other Miscellaneous Property Not Reported Under Any Other Schedule**

Item	Description	Shown on Return	As Determined
20.	Decedent's Intellectual Property Rights	\$2,366,380	\$ 24,992,294
	Total of these items		\$ 24,992,294
	Shown on Return		\$ 2,366,380
	Change to Schedule		<b>\$ 22,625,914</b>

It has been determined that the fair market value, at the date of the decedent's death, of Decedent's Intellectual Property Rights is \$24,992,294 instead of \$2,366,380 as reported on the estate tax return. Accordingly, the reported value of the taxable estate is increased by \$22,625,914.

**Accuracy Related Penalties Under Section 6662**

Item	Description	Shown on Return	As Determined
1.	Gross Valuation Misstatement	\$ 0	\$ 3,167,628
	Total of these Items		\$ 3,167,628
	Shown on Return		\$ 0
	Change to Schedule		<b>\$ 3,167,628</b>

**Gross Valuation Misstatement (< or equal to 40%) – IRC §§ 6662(g) and (h)(2)(C)**

It is determined that the portion of the underpayment of tax as set forth below is attributable to gross valuation misstatements and exceeds \$5,000. Accordingly, as provided by IRC §§ 6662(g) and (h)(2)(C), an accuracy-related penalty is imposed equal to 40% of the portion of the underpayment of tax attributable to the identified adjustments constituting gross valuation misstatements.

Alternatively, it is determined that all of the underpayment of tax is due to a substantial estate or gift tax valuation understatement which exceeds \$5,000.00, and that an accuracy-related penalty is imposed equal to 20% of the total underpayment of tax as provided by Internal Revenue Code Section 6662.


It is determined that all of the underpayment of tax is due to negligence or disregard of the rules and regulations. It is also determined that the understatement for the taxable year exceeds the greater of 10% of the amount of tax required to be shown on the return or \$5,000.00 for the taxable year. Accordingly, there is an accuracy related penalty equal to 20% of the total underpayment of tax as provided by Internal Revenue Code section 6662(a).

Department of the Treasury- Internal Revenue Service  
Report of Estate Tax Examination Changes

Form 1273

Estate of: Houston, Whitney E. Estate	Social Security Number:	Date of Death: 2/11/2012
Name of Person With Whom Findings were Discussed: Allen D. Altman, Representative		Agreement Secured: No

		Shown on Return/ As Previously Assessed	As Corrected
1	Tentative Taxable Estate Shown on Return or Previously Adjusted		13,912,671
2	Increase/Decrease in Tentative Taxable Estate		22,625,914
3a	Tentative Taxable Estate as Corrected (Line 1 plus/minus Line 2)		36,538,585
3b	State Death Tax Deduction	0	0
3c	Taxable Estate as Corrected (Line 3a - Line 3b)		
4	Adjusted Taxable Gifts	13,912,671	36,538,585
5	Total	0	0
6	Tentative Tax	13,912,671	36,538,585
7	Aggregate Gift Tax Payable (After Dec. 31, 1976)	4,850,235	12,769,305
8	Tax Before Unified Credit (Line 6 - Line 7)	0	0
9a	Basic Exclusion Amount	4,850,235	12,769,305
9b	Deceased Spousal Unused Exclusion (DSUE)	5,120,000	5,120,000
9c	Applicable Exclusion Amount (Line 9a + Line 9b)	0	0
9d	Applicable Credit Amount (from Table A, using Line 9c)	5,120,000	5,120,000
10	Adjustment to Unified Credit	1,772,800	1,772,800
11	Allowable applicable credit amount	0	0
12	Tax Before SDTC (Line 8 - Line 11) *Cannot be < 0	1,772,800	1,772,800
13	State Death Tax Credit	3,077,435	10,996,505
	Tentatively Allowed	0	0
	Submit Evidence by		
14	Net Tax Post State Death Tax Credit (Line 12 - Line 13)	3,077,435	10,996,505
15	Gift Tax Credit (Pre-1977 Gifts)	0	0
16	Foreign Death Tax Credit (Statutory)	0	0
17	Prior Transfer Credit	0	0
18	Foreign Death Tax Credit (Treaty) /Canadian Marital Credit	0	0
19	Total Credits (Sum of Lines 15 through 18)	0	0
20	Net Estate Tax Payable	0	0
21	Generation Skipping Transfer Taxes (Schedule R, Part 2, Line 12)	3,077,435	10,996,505
22	Increased Estate Tax (Section 4980A, Schedule S)	0	0
23	Total Federal Estate Tax (Sum of Lines 20 through 22)	0	0
24	Total Transfer Tax Previously Assessed.	3,077,435	10,996,505
25	Total Transfer Tax Increase/Decrease (Line 23 - Line 24)		3,077,435
26	Penalties Previously Assessed - Code(s):		7,919,070
27	Penalties as Corrected - Code(s): 6662		0
28	Net Penalties Increase/Decrease (Line 27 - Line 26)		3,167,628
29	Net Tax and Penalties Payable Increase/Decrease (Line 25 + Line 28)		3,167,628
			11,086,698

Signature:   
Michael A. Perlmutter

Date: 1/15/2016

Department of the Treasury- Internal Revenue Service  
Line Adjustment - Estate Tax

Form 6180

Estate of: Houston, Whitney E. Estate		Social Security Number		Date of Death: 2/11/2012	
		Shown on Return/ As Previously Assessed	Changed	As Corrected	
1	Schedule A, Real Estate	1,300,000	0	1,300,000	
2	Schedule B, Stocks and Bonds	0	0	0	
3	Schedule C, Mortgages, Notes, and Cash	792,807	0	792,807	
4	Schedule D, Insurance on the Decedent's Life	7,636,241	0	7,636,241	
5	Schedule E, Joint Owned Property	0	0	0	
6	Schedule F, Other Miscellaneous Property	5,965,353	22,625,914	28,591,267	
7	Schedule G, Transfers During Decedent's Life	0	0	0	
8	Schedule H, Powers of Appointment	0	0	0	
9	Schedule I, Annuities	546,009	0	546,009	
10	Gross Estate	16,240,410	22,625,914	38,866,324	
11	Schedule U, Qualified Conservation Easement Exclusion	0	0	0	
12	Gross Estate less exclusion	16,240,410	22,625,914	38,866,324	
13	Schedule J, Funeral and Administrative Expenses	829,765	0	829,765	
14	Schedule K, Debts of Decedent	0	0	0	
15	Schedule K, Mortgages and Liens	1,497,974	0	1,497,974	
16	Total of Schedules J and K (Lines 13, 14, + 15)	2,327,739	0	2,327,739	
17	Allowable deductions from Schedules J and K	2,327,739	0	2,327,739	
18	Schedule L, Net Losses During Administration	0	0	0	
19	Schedule L, Expenses and Property Not Subject to Claims	0	0	0	
20	Total (Lines 17, 18, + 19)	2,327,739	0	2,327,739	
21	Schedule M, Marital Deduction	0	0	0	
22	Schedule O, Charitable Bequests	0	0	0	
23	ESOP Deduction	0	0	0	
24	Schedule T, QFOB Deductions	0	0	0	
25	Total Allowable Deductions (Lines 20, 21, 22, 23, + 24)	2,327,739	0	2,327,739	
26	Tentative Taxable Estate (Line 12 - 25)	13,912,671	22,625,914	36,538,585	

Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATION OF ITEMS</b>	Schedule number or exhibit F - Other Miscellaneous Property
Name of taxpayer  Houston, Whitney E. Estate	Tax Identification Number	Year/Period ended  2/11/2012

F - Other Miscellaneous Property

Item #	Description	Returned/Assessed	Corrected
20	Intangible Property Rights	2,366,380	24,992,294
	Total of these Items	2,366,380	24,992,294
	Shown on Return		2,366,380
	Change to Schedule		22,625,914

The value of every item of property includible in the decedent's estate is its fair market value at the time of the decedent's death. Code section 2031; Treas. Reg. 20.2031-1(b).

The fair market value of an asset is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. Treas. Reg. 20.2031-1(b).

The value of gross estate has been adjusted to reflect the fair market value of the above asset(s), as of the applicable valuation date. Code section 2031. The specific asset valuation adjustments ("adjusted") are organized per Exhibit A of the Gelfand, Rennart & Feldman, LLP report ("claimed") attached to the return as Exhibit 25:

1. Record Royalties - Sony Music - Catalog Albums: claimed: \$0, adjusted: \$9,096,455
2. Record Royalties - Sony Music - New Album: claimed: \$0, adjusted: \$440,989
3. Record Royalties - Sony Music - Music Video Sales: claimed: \$0, adjusted: \$0
4. Digital Performance Rights Royalties - SoundExchange: claimed: \$1,435,620, adjusted: \$2,793,950
5. Name and Likeness (i.e. Merchandising) Royalties - Bravado: claimed \$0, adjusted: \$0
6. Motion Picture and television Residuals - Various Sources: claimed: \$474,360, adjusted: \$594,897
7. Music Publishing Royalties: claimed: \$131,900, adjusted: \$165,599
8. Rights of Publicity Income: claimed: \$188,538, adjusted: \$11,711,377
9. Royalties From Other Income Sources: claimed \$135,962, adjusted: \$189,028

Total value as claimed: \$2,366,380

Total Value as adjusted: \$24,992,294



Form <b>886-A</b> (Rev. January 1994)	<b>EXPLANATION OF ITEMS</b>		Schedule number or exhibit Penalty 6662 - Accuracy/Negligence (.40)
Name of taxpayer	Tax Identification Number		Year/Period ended
Houston, Whitney E. Estate			2/11/2012

**Penalty 6662 - Accuracy/Negligence (.40)**

Item #	Description	Returned/Assessed	Corrected
1	Corrected Penalties from Worksheet	0	3,167,628
	Total of these Items	0	3,167,628
	Shown on Return		0
	Change to Schedule		3,167,628

IRC Section 6662 applies to underpayments of tax due to inaccuracies on a return. An accuracy-related penalty is asserted in an estate and gift tax case where there is a substantial valuation understatement. (IRC Section 6662(b)(5)). A substantial valuation understatement exists if: (1) the value of any property claimed on the return is 65% or less of the correct value; (2) the estate tax resulting from the understatement is more than \$5,000, and (3) no reasonable cause exists for the undervaluation. (IRC Section 6662(g)). If a substantial valuation understatement exists, a 20% penalty applies on the tax attributable to the valuation understatement.

The accuracy related penalty increases from 20% to 40% if the value of the property claimed on the return is 40% or less of the correct value. (IRC Section 6662(h)).

The value of the property claimed on the return is \$2,366,380 and the corrected value is \$24,992,294. The value of the claimed property is 9.4684% of the corrected amount, accordingly the 40% penalty applies.

<b>Estate of:</b> Houston, Whitney E. Estate	<b>Social Security Number:</b>	<b>Date of Death:</b> 2/11/2012
<b>Penalty 6662 – Accuracy/Negligence</b>		

<b>Taxpayer:</b>	Houston, Whitney E. Estate	
<b>Penalty Type:</b>	Penalty 6662 – Accuracy/Negligence	
<b>Adjustment Amount:</b>		7,919,070
<b>Accuracy-related penalty:</b>		0.4
<b>Total Penalty for Accuracy/Negligence:</b>		<b>3,167,628</b>

**Calculation Summary**

Total Penalty for Accuracy/Negligence = Adjustment Amount x Accuracy-related penalty  
Total Penalty for Accuracy/Negligence = 7,919,070 \* 0.4  
Total Penalty for Accuracy/Negligence = 3,167,628