

C.R. Lindback Foundation v. Commissioner, 4 T.C. 660 (1945)

An employee benefit fund primarily supported by member contributions is generally not considered a charitable organization for tax exemption or contribution deduction purposes, and employer contributions to such a fund are considered income, not gifts.

Summary

The Tax Court addressed whether the C.R. Lindback Foundation, an employee benefit fund, qualified for tax exemption as a charitable organization under the 1926 Revenue Act. The court held that because the Foundation's primary income source was employee dues, it was not a charitable institution for tax purposes. Additionally, employer contributions to the fund were deemed income, not gifts, and thus taxable. The court did, however, find that penalties for late filing should not be imposed, as the Foundation relied on the advice of counsel. Finally, individual contributions to the fund were deemed non-deductible as charitable donations because the foundation wasn't deemed a qualifying charity.

Facts

- The C.R. Lindback Foundation was an unincorporated association of employees of Abbotts Dairies, Inc.
- The Foundation's primary purpose was to provide financial assistance and benefits to its members.
- The Foundation was funded by employee dues and contributions from Abbotts.
- Lindback and Griscom, individuals, made voluntary contributions to the Foundation in later years.
- The Foundation did not file income tax returns for 1926 and 1927, believing it was exempt.

Procedural History

- The Commissioner of Internal Revenue assessed deficiencies against the Foundation for 1926 and 1927 and imposed penalties for failure to file returns.
- Lindback and Griscom claimed deductions for charitable contributions to the Foundation, which were disallowed by the Commissioner.
- The cases were consolidated before the Tax Court.

Issue(s)

1. Whether the Foundation was exempt from taxation under paragraph (6) or (8) of Section 231 of the Revenue Act of 1926.
2. Whether the contributions from Abbotts should be excluded from the Foundation's gross income as gifts under Section 213(b)(3) of the Revenue Act of 1926.
3. Whether the Foundation was liable for penalties for failure to file returns.

4. Whether Lindback and Griscom were entitled to deduct their contributions to the Foundation under Section 23(o)(2) of the Revenue Act of 1938 and the Internal Revenue Code.

Holding

1. No, because the Foundation was primarily funded by member contributions, resembling an insurance institution more than a charitable one.
2. No, because Abbotts' contributions were considered income to the Foundation, not gifts, as Abbotts treated them as business expenses.
3. No, because the Foundation relied on the advice of counsel in not filing returns.
4. No, because the Foundation was not organized and operated exclusively for charitable purposes under Section 23(o)(2).

Court's Reasoning

The court reasoned that an organization deriving its principal income from fixed, regular contributions from its members is not a charitable society. It distinguished the case from those where the primary income came from the generosity or liberality of others. Citing *Philadelphia & Reading Relief Association*, 4 B.T.A. 713, the court emphasized that benefits received by members were largely due to their own dues payments, not charity.

Regarding Abbotts' contributions, the court relied on *Shell Employees' Benefit Fund*, 44 B.T.A. 452, stating that employer contributions are not gifts but income, especially when treated as business expenses. As to penalties, the court found reasonable cause for failure to file, based on advice from counsel, citing *Dayton Bronze Bearing Co. v. Gilligan*, 281 Fed. 709.

Finally, concerning the deductibility of individual contributions, the court noted that while the Foundation was later deemed exempt under Section 137 of the Revenue Act of 1942, this did not automatically qualify contributions as deductible under Section 23(o)(2). The Foundation still needed to be organized and operated exclusively for charitable purposes, which it was not.

Practical Implications

This case clarifies the distinction between employee benefit funds and charitable organizations for tax purposes. It highlights that:

- Organizations heavily reliant on member dues may not qualify as charities, even if they provide beneficial services.
- Employer contributions to such funds are likely to be treated as taxable income for the fund.
- Taxpayers should carefully consider the funding structure and operational purpose of an organization before claiming charitable contribution deductions.

Later cases have cited this ruling to emphasize the importance of the source of funding in determining an organization's charitable status for tax exemption and deductibility purposes.