Estate of Hazel V. Keener, 12 T.C. 1242 (1949)

A transfer of a present, immediate, and irrevocable interest in real property to a charitable organization constitutes a completed gift at the time of the transfer, deductible for income tax purposes in that year, even if the charity's interest is subject to a right of reverter.

Summary

The petitioner, Hazel V. Keener, transferred property to the American Red Cross via two deeds, granting them use of the property until the Red Cross ceased its operations in the area or the property was needed for other purposes, with a reverter to Keener or her heirs. Keener claimed charitable deductions for the rental value of the property in 1942 and 1943. The Tax Court held that Keener made a single, completed gift of a property interest in 1942, deductible in that year subject to statutory limitations, rather than a series of annual gifts of rental value. The court found the Red Cross received a freehold interest in the nature of a determinable fee.

Facts

On March 30, 1942, Hazel V. Keener executed two deeds. The first deed transferred the property to Dolan, an employee, without consideration. The second deed, executed simultaneously by Dolan, transferred the same property to the American Red Cross. The Red Cross was to have the use of the property until its local chapter ceased operations or the property was needed for other purposes, at which point the property would revert to Keener or her heirs. Keener intended the Red Cross to have the use of the property from year to year and claimed charitable deductions for the rental value of the property in 1942 and 1943. Keener did not pay real estate taxes on the property after March 30, 1942.

Procedural History

The Commissioner of Internal Revenue disallowed the deductions claimed by Keener for the rental value of the property in 1942 and 1943. The Commissioner argued that the gift was made by Dolan, not Keener, or alternatively, that Keener made a series of annual gifts measured by the rental value. Keener petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the transfer of property to the Red Cross constituted a completed gift of a property interest in 1942, deductible in that year, or a series of annual gifts of rental value deductible in 1942 and 1943.

Holding

No, because Keener made a single, completed gift of a property interest in 1942,

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deductible in that year subject to statutory limitations, rather than a series of annual gifts of rental value. The Red Cross received a freehold interest in the nature of a determinable fee.

Court's Reasoning

The Tax Court reasoned that the two deeds must be read together as part of an integrated transaction, establishing that Keener, not Dolan, made the gift. The court rejected Keener's argument that she made a series of annual gifts, finding that the Red Cross received "a present, immediate, irrevocable interest in the property of indefinite duration." The Red Cross's interest was a freehold interest, specifically a determinable fee, meaning the Red Cross owned the property subject to a right of reverter in Keener. Because Keener transferred a present ownership interest, she was no longer liable for property taxes. The court stated:

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