16 T.C. 498 (1951)

A charitable contribution is deductible in the year the donee agrees to comply with the donor's conditions and accepts the contribution, not necessarily the year the check is delivered.

Summary

Linwood A. Gagne sought to deduct a $50,000 contribution to Carlisle Hospital made in 1942. The IRS argued it was not deductible until 1943 when the hospital formally accepted the conditional gift. Gagne delivered a check on December 31, 1942, but the hospital did not agree to the conditions (use for venereal disease research, administered by a specific board) until January 12, 1943. The Tax Court held the contribution was deductible in 1943 because the gift was conditional and not fully accepted until that year.

Facts

- Linwood A. Gagne, a manufacturer, drew a $50,000 check on December 31, 1942, to "Creedin Fickel & Trustees Carlisle Hospital."
- He gave the check to Rodney Fickel (brother of Dr. Creedin S. Fickel) with instructions to deliver it to Dr. Fickel.
- The contribution was conditioned on the funds being used for research and special work in venereal disease, administered by a board including Gagne, Dr. Fickel, and a hospital representative.
- Dr. Fickel delivered the check to the hospital superintendent on January 1, 1943, but she initially refused it, lacking authority.
- The hospital tentatively accepted the check on January 2, 1943, depositing it in a special account.
- The hospital's board of trustees formally accepted the gift and its conditions on January 12, 1943, appointing a representative to the administrative board.

Procedural History

The IRS determined a deficiency in Gagne's 1943 income tax. Gagne petitioned the Tax Court, contesting the IRS's determination that the $50,000 contribution was not deductible in 1942. The Tax Court reviewed the case to determine the proper year for the deduction.

Issue(s)

1. Whether a charitable contribution made subject to conditions is deductible in the year the check is delivered, or the year the donee accepts the conditions?
2. Whether the tax for the year 1943 imposed by Chapter 1 of the Internal Revenue Code includes the increase in tax for that year occasioned by section 6 of the Current Tax Payment Act of 1943 for the purpose of computing the 90 per cent victory tax limitation prescribed by section 456 of the Code?

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Holding

1. Yes, the charitable contribution is deductible in 1943, because a conditional gift is only complete when the donee agrees to and accepts the conditions.
2. Yes, the tax includes the increase under Section 6 of the Current Tax Payment Act of 1943, because the court followed *Guest v. Commissioner*, 175 F.2d 868, on this matter.

Court's Reasoning

- The court emphasized that a gift *inter vivos* requires absolute conveyance and irrevocable delivery to the donee.
- Citing legal authorities, the court noted that a gift subject to conditions is not effective until the donee agrees to comply and accepts the gift.
- The court stated, "The donor must vest legal title in the donee without reserving a power of revocation, and he must relinquish dominion and control of the subject matter of the gift by delivery to the donee."
- Because Carlisle Hospital did not formally accept the gift and its conditions until January 12, 1943, the delivery and payment of the gift occurred in 1943, making it deductible in that year.
- The court dismissed the IRS's argument that Gagne created a charitable trust, reiterating the gift was to Carlisle Hospital, not a trust.
- Regarding the victory tax limitation, the court followed the precedent set in *Guest v. Commissioner*, which addressed the computation of the victory tax limitation under Section 456.

Practical Implications

- This case clarifies that for tax purposes, a charitable contribution is not complete until the donee accepts the gift and its conditions. Donors must ensure that conditional gifts are formally accepted within the tax year for which they seek a deduction.
- Tax advisors should advise clients making conditional donations to obtain written confirmation of acceptance from the donee organization within the desired tax year.
- This ruling impacts the timing of deductions for conditional gifts, affecting tax planning strategies for individuals and businesses.
- Subsequent cases would likely cite this ruling when considering the deductibility of conditional charitable contributions, emphasizing the importance of acceptance by the donee.

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