22 T.C. 1132 (1954)

A donation of an undivided interest in minerals in place to a qualified charity, where the charity receives the proceeds from production up to a specified amount, is a deductible charitable contribution in the year the interest is transferred, even if production and payments occur in a subsequent year.

Summary

The Nordan case concerns the deductibility of a charitable contribution to a church. The Nordans, owners of oil and gas interests, conveyed an undivided interest in the minerals in place to a church until the church received $115,000 from production. The Commissioner disallowed the deduction for the value of this interest, arguing the Nordans only donated a right to future income. The Tax Court sided with the Nordans, holding that the transfer was a gift of property with a determinable fair market value, deductible in the year of the transfer. The court distinguished this from cases involving the mere assignment of future income.

Facts

Lester and Pearl Nordan, oil and gas operators, executed a deed of gift on December 1, 1949, conveying an undivided one-eighth interest in oil, gas, and minerals in place to Central Christian Church. The church was to receive $115,000 from the proceeds of production. Full title remained with the church until this amount was received, after which the interest would revert to the Nordans. The fair market value of the interest was $111,925.95. The Nordans claimed this amount as a charitable contribution on their 1949 tax return. The church sold the interest on January 1, 1950, and received $115,000 from production during 1950. The Commissioner disallowed the 1949 deduction, arguing the Nordans only donated a right to future income. The Commissioner did add the $109,825 to the Nordans income for 1950 and allowed them a charitable deduction of the same amount, as well as depletion on that income.

Procedural History

The Nordans filed a joint income tax return for 1949, claiming a charitable deduction that the Commissioner disallowed. The Commissioner assessed a tax deficiency, leading the Nordans to petition the United States Tax Court. The Tax Court reviewed the case based on a stipulated set of facts.

Issue(s)

1. Whether the conveyance of an undivided interest in oil, gas, and minerals in place to a church constitutes a gift of property eligible for a charitable contribution deduction under Section 23(o) of the Internal Revenue Code of 1939.

2. Whether the deduction is allowable in the year of the transfer even though no

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payments were received by the donee in that year.

Holding

1. Yes, the conveyance constituted a gift of property, entitling the Nordans to a charitable contribution deduction.

2. Yes, the deduction was allowable in 1949, the year of the transfer, despite payments being received in 1950.

Court's Reasoning

The court relied heavily on the principle that the Nordans transferred an actual property interest in the minerals, not just the right to future income. The court distinguished this from cases where taxpayers retained ownership of the income-producing property while merely assigning the right to income. The court emphasized that the church held full title to the mineral interest until it received the specified sum. The court found the situation analogous to the case of *R.E. Nail et al., Executors*, 27 B.T.A. 33. The court noted that the Commissioner had stipulated to the fair market value of the property conveyed. The court also referenced regulations that support the deductibility of charitable contributions of property.

Practical Implications

This case provides a clear rule for structuring charitable gifts of mineral interests. It confirms that donating an undivided interest in minerals in place, where the donee receives proceeds from production up to a specified amount, is a deductible charitable contribution in the year of transfer. It is important to structure such transactions carefully to ensure the transfer is of a property interest and not merely an assignment of future income. The value of the contribution is based on the fair market value of the mineral interest at the time of the transfer, not the future income stream. This ruling offers guidance for tax planning, allowing donors to support charitable causes through gifts of natural resources while obtaining immediate tax benefits. Subsequent cases would likely follow this precedent for similar donations, however, the specifics of the transfer instrument would need to align with the facts here to avoid recharacterization by the IRS.

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