***30 T.C. 396 (1958)***

A prize awarded through a lottery, where participation requires a contribution, constitutes taxable income to the recipient regardless of their charitable motive.

**Summary**

In Downes v. Commissioner, the United States Tax Court addressed whether the value of an automobile received as a prize in a charity drive lottery was taxable income. The petitioner, H. Collings Downes, contributed to a combined charity drive at his workplace, and his name was entered into a drawing. He won a car worth $1,525. The court held that the value of the car was taxable income, distinguishing the situation from a gift. The decision hinged on the fact that Downes's participation was contingent on making a contribution, thus creating a lottery scenario. The court also addressed and partially disallowed automobile expense deductions claimed by the petitioner related to caring for an incompetent relative, as the taxpayer did not have adequate records. The court's decision emphasized that the charitable nature of the drive did not change the taxability of the lottery prize.

**Facts**

- H. Collings Downes, the petitioner, was a civilian employee.
- In 1952, the officials at his workplace organized a combined charity drive.
- As an incentive, prizes were offered to contributing employees, with winners selected by a drawing.
- Downes contributed $5 to the drive.
- He won a 1952 Chevrolet automobile valued at $1,525.
- Downes had made similar donations to charities in previous years.
- Downes was not present at the drawing.
- Downes served on a committee for his incompetent aunt's estate and incurred automobile expenses.
- Downes claimed $300 in automobile expense deductions, of which the Commissioner disallowed $200.

**Procedural History**

The Commissioner of Internal Revenue determined a tax deficiency for the petitioner for 1952, including the value of the automobile as taxable income and disallowing a portion of claimed automobile expense deductions. The petitioner challenged this determination in the United States Tax Court.

**Issue(s)**

1. Whether the value of an automobile received as a prize in a drawing connected with a charity campaign is taxable income.
2. Whether the Commissioner properly disallowed a portion of the petitioner's claimed deduction for automobile expenses.

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## Holding

1. Yes, because the prize was obtained through a lottery that required a contribution, it constituted taxable income.
2. Yes, because the petitioner did not maintain adequate records to substantiate the claimed automobile expenses.

## Court's Reasoning

The court focused on whether the prize was taxable income under Internal Revenue Code Section 22(a), which defines gross income broadly, or excludable as a gift under Section 22(b)(3). The court distinguished the case from scenarios where prizes might be considered gifts. The court reasoned that the prize was the result of a lottery, where participation required a contribution, making it taxable. The court cited *Clewell Sykes* and *Diane M. Solomon* cases, emphasizing the "nature of the scheme or plan to award a prize by chance to one who has paid a consideration for that chance that determines whether the prize is taxable income, and not the nature of the organization that conducts the plan and makes the award." The court found it immaterial that the petitioner had a charitable motive or that the charity itself did not award the prize. Regarding automobile expenses, the court found the petitioner's record-keeping insufficient to justify the claimed deduction.

## Practical Implications

This case clarifies that prizes received through lotteries are taxable income, regardless of the underlying purpose of the lottery. This applies when participation in the lottery requires a contribution. The decision emphasizes that the form of the transaction (lottery) determines the tax consequences, not the nature of the sponsoring organization (charity). Lawyers should advise clients that winning prizes contingent on a purchase or contribution will result in taxable income. Additionally, the case highlights the importance of maintaining adequate records to substantiate deductions for expenses. Without proper documentation, deductions may be disallowed by the IRS. Later courts would look to Downes to determine whether a payment was made to participate in a lottery, which, if found, results in taxable income to the winner.

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