***33 T.C. 223 (1959)***

A taxpayer's charitable contribution deduction for donated property is limited to the amount paid when the property was never available for resale by the taxpayer due to the terms of the purchase.

**Summary**

In 1952, Jacob J. Cooley purchased automobiles from General Motors with the express condition that they be donated to the United Jewish Appeal (U.J.A.). He claimed a charitable deduction based on the automobiles' retail value, exceeding his purchase price. The Commissioner of Internal Revenue argued the deduction should be limited to Cooley's purchase price, as the automobiles were never marketable by him. The Tax Court agreed, ruling that the deduction should be limited to the cost basis, as the taxpayer was not able to resell the automobiles and obtain a profit from the sale. The Court's decision hinged on the fact that the vehicles were never available for resale by Cooley, thus, the fair market value did not apply in this context, rather the cost of the vehicles was the measure of the charitable deduction.

**Facts**

Jacob J. Cooley, a major shareholder and officer of several Chevrolet dealerships, was approached by Leo Goldberg to donate automobiles to the U.J.A. for shipment to Israel. Cooley negotiated with General Motors' Foreign Distributor's Division to purchase 13 Chevrolet sedans. Cooley paid General Motors $17,581.72 for the vehicles. A condition of the sale was that the automobiles be donated to U.J.A. and were not available for resale by Cooley or his dealerships. Cooley claimed a charitable deduction of $24,700, the alleged fair market value of the automobiles. The IRS limited the deduction to the $17,581.72 Cooley paid for the vehicles.

**Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Cooley's income tax for 1952, limiting the charitable deduction. Cooley appealed to the United States Tax Court.

**Issue(s)**

Whether a taxpayer's charitable contribution deduction for donated property is limited to the amount paid when the property was never available for resale by the taxpayer?

**Holding**

Yes, because the automobiles were never available for resale by the taxpayer, thus his charitable deduction should be limited to the amount he paid for them.

 

### Court’s Reasoning

The court acknowledged the general rule allowing a deduction for the fair market value of donated property. However, it emphasized that “fair market value” must be determined in context, considering any restrictions on marketability. The court found that Cooley never had the right to resell the automobiles, as it violated the terms of the agreement with General Motors. The court determined that since the automobiles were not marketable in Cooley’s hands, it would be unrealistic to allow a deduction based on the retail value. The situation was analogous to cases where property’s value is limited by restrictions on marketability. The court found that Cooley was only entitled to deduct the amount he paid for the automobiles.

### Practical Implications

This case clarifies that when a taxpayer donates property acquired under conditions that prevent resale, the charitable deduction is limited to the taxpayer’s cost basis, not the fair market value. This has implications for individuals or businesses making donations of property acquired with specific restrictions. Tax advisors must consider these limitations when advising clients on the value of charitable deductions. When structuring charitable contributions, the donor’s ability to resell or otherwise benefit from the property’s value is a key factor in determining the allowable deduction. This case also affects the valuation of property for tax purposes, emphasizing the importance of considering all restrictions on marketability when determining fair market value.

 