Allen v. Commissioner, 57 T. C. 12 (1971)

A charitable contribution deduction for a rent-free lease must be taken in the year the lease is granted, not annually, if it constitutes a single, completed gift.

Summary

In Allen v. Commissioner, the taxpayer gifted a 5-year rent-free lease of property to a charity in 1965 but attempted to claim charitable deductions based on the annual rental value in 1966 and 1967. The U. S. Tax Court held that the taxpayer made a single, completed gift in 1965 and was entitled to a deduction only for that year, based on the fair market value of the entire lease term. The decision hinges on the nature of the lease as a fixed-term, irrevocable conveyance, emphasizing that the deduction must be claimed when the gift is made, not spread over the lease term.

Facts

In 1965, John G. Allen gifted a 5-year rent-free lease of his Seneca property to the College Center of the Finger Lakes for use in Project Lake Diver. The agreement allowed the charity to terminate early if the project concluded before the lease term ended. Allen did not claim a charitable deduction in 1965 but sought to deduct the annual fair rental value of $3,000 in both 1966 and 1967. The parties agreed that the annual fair rental value was $1,800.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Allen's 1966 and 1967 tax returns, disallowing the annualized charitable deductions. Allen petitioned the U. S. Tax Court for review, which led to the court's decision that the gift was complete in 1965 and thus the deduction should have been taken in that year.

Issue(s)

1. Whether a taxpayer who grants a 5-year rent-free lease to a charity can claim charitable contribution deductions based on the annual fair rental value of the property in each year of the lease term?

Holding

1. No, because the taxpayer made a single, completed gift in 1965 by granting a fixed-term lease, and thus the charitable deduction must be taken in the year of the gift, based on the fair market value of the entire lease term.

Court's Reasoning

The court determined that the lease granted to the College Center was a fixed-term lease under New York law, conveying a present interest in the property. The key factor was that Allen had no right to terminate the lease during the 5-year period, only the charity could end it early if the project concluded. The court distinguished this from cases where the donor retained termination rights, which would allow for annualized deductions. The court cited *Priscilla M. Sullivan* as precedent, where a similar fixed-term conveyance was treated as a single gift. The court emphasized that the fair market value of the leasehold should have been appraised and deducted in 1965, as there was no uncertainty about the gift's duration or value. The decision reinforces that for tax purposes, a charitable gift must be valued and deducted in the year it is made if it is a completed, irrevocable transfer.

Practical Implications

This ruling clarifies that for charitable gifts of rent-free property use, the deduction must be taken in the year the gift is made if it constitutes a fixed-term, irrevocable lease. Taxpayers and their advisors must carefully consider the terms of any charitable lease to determine if it qualifies as a single, completed gift. The decision impacts how similar cases are analyzed, requiring a focus on the donor's retained rights and the lease's irrevocability. It also influenced subsequent tax legislation, leading to amendments in the Internal Revenue Code to prevent such deductions. Practitioners should advise clients to appraise and claim deductions for such gifts promptly in the year they are made, rather than attempting to spread them over the lease term.

