Seder v. Commissioner, 60 T. C. 49 (1973)

A charitable deduction for an income interest is not allowed if there is substantial doubt that the charity will benefit from the interest.

Summary

In Seder v. Commissioner, the Tax Court denied a charitable deduction claimed by Seymour and Frances Seder for transferring stock to a trust, where income was designated for a charity for three years before reverting to Frances Seder for life. The stock had not paid dividends for 11 years, and the court found it highly unlikely that the charity would receive any income due to the company's policy against dividends and the trustees' discretion to retain the stock. The court's decision hinged on the principle that a charitable deduction requires a likelihood that the charity will actually benefit from the donation, which was not evident in this case.

Facts

Seymour and Frances Seder transferred 1,400 shares of Condec Corp. stock to an irrevocable trust on December 26, 1968. The trust stipulated that the net income would be paid to the Seymour and Frances Seder Fund, a charitable organization, for three years, after which it would be paid to Frances Seder for life. Condec Corp. had not paid dividends on its common stock since 1957 and had publicly stated it did not expect to pay dividends in the near future. The trust agreement allowed the trustees, one of whom was Seymour Seder, to sell the stock or retain it without liability. At the time of transfer, Condec's financial situation and policies suggested it was unlikely to pay dividends during the three-year period allocated to the charity.

Procedural History

The Seders claimed a charitable deduction on their 1968 income tax return. The Commissioner of Internal Revenue disallowed the deduction, leading to a deficiency determination of $2,558. 99. The Seders petitioned the United States Tax Court to challenge this determination. The Tax Court, after reviewing the case, upheld the Commissioner's denial of the deduction and entered a decision for the respondent.

Issue(s)

1. Whether the petitioners are entitled to a charitable deduction under section 170 of the Internal Revenue Code for the transfer of a three-year income interest to a charitable organization?

Holding

1. No, because there was substantial doubt that the charity would receive any income during the three-year period, making it unlikely that the charity would benefit from the gift.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court applied the legal rule that a charitable deduction is not allowed if there is more than a negligible possibility that the charity will not receive the beneficial use of the property, as stated in section 1. 170-1(e) of the Income Tax Regulations. The court emphasized that the likelihood of the charity benefiting from the gift is a critical factor in determining the deduction’s validity. In this case, the court noted Condec’s long-standing policy of retaining earnings for expansion rather than paying dividends, which had not changed in over a decade. Furthermore, the trustees had discretion to retain the stock without liability, and Seymour Seder’s position as a trustee with personal interests in the stock’s growth made it unlikely that the stock would be sold to generate income for the charity. The court distinguished this case from others where deductions were allowed, citing the unique circumstances that indicated the charity would not benefit. The court quoted from Commissioner v. Sternberger’s Estate, stating, “The result might well be not so much to encourage gifts inuring to the benefit of charity as to encourage the writing of conditions into bequests which would assure charitable tax deductions without assuring benefits to charity. “

Practical Implications

This decision underscores the importance of ensuring that a charitable donation will actually benefit the charity for a deduction to be valid. For practitioners, it highlights the need to thoroughly assess the likelihood of income generation from donated assets, especially when the asset’s income potential is uncertain. The ruling suggests that taxpayers should consider the historical performance and future prospects of income-generating assets before claiming deductions for charitable contributions. Businesses and individuals planning similar trusts should be cautious about structuring donations in a way that might not benefit the charity, as such structures could lead to denied deductions. This case has been cited in subsequent rulings to deny deductions where the charitable benefit was uncertain, reinforcing the principle that charitable deductions require a tangible benefit to the charity.

© 2025 SCOTUSreports.com. All rights reserved.