Palmer v. Commissioner, 62 T. C. 684 (1974)

A taxpayer may claim a charitable deduction for a stock contribution even if the stock is redeemed shortly thereafter, provided the contribution was made prior to the redemption and the donee had control over the stock.

Summary

Daniel D. Palmer contributed stock to a charitable foundation, which then redeemed the stock for the assets of a chiropractic college. The IRS argued that the contribution was merely an assignment of income because the redemption followed closely. The Tax Court held that the stock contribution was valid and not an assignment of income, as the foundation had control over the stock and could have prevented the redemption. The court also found that the IRS failed to prove the stock's value was less than claimed by Palmer, allowing him the full charitable deduction. This case emphasizes the importance of timing and control in distinguishing a valid charitable contribution from an income assignment.

Facts

Daniel D. Palmer, trustee and beneficiary of a trust owning 71. 76% of a corporation operating Palmer College of Chiropractic, transferred 2,078. 97 shares to a charitable foundation on August 31, 1966. Palmer also contributed 238 shares of his own stock to the foundation on the same day, resulting in the foundation owning 80% of the corporation. The next day, the corporation redeemed the foundation's shares in exchange for the college's operating assets. Palmer claimed a charitable deduction for his 238 shares, valued at $863 per share. The IRS challenged the deduction, arguing the contribution was an assignment of income due to the subsequent redemption.

Procedural History

The IRS determined a deficiency in Palmer's 1966 federal income tax and disallowed his charitable contribution deduction. Palmer petitioned the U. S. Tax Court, which heard the case and issued its decision on August 27, 1974, ruling in favor of Palmer.

Issue(s)

1. Whether Palmer's contribution of stock to the foundation was in substance a gift of stock, or merely an anticipatory assignment of income due to the subsequent redemption?

2. Whether the fair market value of the stock contributed by Palmer was less than the $863 per share he claimed on his tax return?

Holding

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1. Yes, because the contribution of stock preceded the redemption, and the foundation had control over the stock and could have prevented the redemption if it wished.

2. No, because the IRS failed to prove that the fair market value of the stock was less than $863 per share.

Court's Reasoning

The court applied the principle that a gift of appreciated property does not result in income to the donor if the property is given away absolutely and title is transferred before the property generates income. The court rejected the IRS's arguments that the transaction should be collapsed under the step-transaction doctrine or treated as an anticipatory assignment of income. The foundation was not a sham and had the power to vote against the redemption, which distinguished this case from others where the donee had no such control. The court also noted that Palmer's control over the college's operations post-redemption was not akin to ownership control over the foundation's assets. On the valuation issue, the IRS relied on a prior compelled sale of stock, which the court found unpersuasive as it did not reflect a willing buyer and seller scenario. The court quoted, "A given result at the end of a straight path is not made a different result because reached by following a devious path," from *Minnesota Tea Co. v. Helvering*, to emphasize that the form of the transaction should be respected when it has substance.

Practical Implications

This decision clarifies that a charitable contribution of stock followed by redemption can be treated as a valid gift for tax purposes if the donee has control over the stock and the redemption is not a foregone conclusion. Attorneys should ensure that charitable foundations have the ability to vote on corporate actions post-contribution to maintain the validity of the gift. The case also underscores the importance of establishing fair market value in charitable contribution disputes, as the IRS bears the burden of proof to challenge a taxpayer's valuation. Subsequent cases have cited *Palmer* when analyzing the timing and control elements of stock contributions and redemptions. Practitioners should be aware that while this principle applies to pre-1970 contributions, post-1969 contributions are subject to different rules under IRC §170(e).

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