Jarre v. Commissioner, 64 T. C. 183, 1975 U. S. Tax Ct. LEXIS 153 (1975)

The fair market value of unique property donated to charity is determined by considering a wide range of factors including the creator's reputation, the popularity of the works, and the market demand for similar items.

Summary

In Jarre v. Commissioner, the U. S. Tax Court determined the fair market value of Maurice Jarre's donated original music manuscripts to the University of Southern California. Jarre, a renowned film composer, contributed over 4,000 pages of his work in 1967 and 1968. The court considered Jarre's reputation, the condition and content of the manuscripts, and the market demand for such items. Despite a limited market for complete film scores, the court found that Jarre's works had substantial value, setting the fair market values at $45,000 and $31,000 for the respective years, which were lower than the amounts claimed by Jarre but higher than the IRS's valuations.

Facts

Maurice Jarre, a well-known music composer and conductor, contributed original music manuscripts and related material to the University of Southern California in 1967 and 1968. The donated material included scores for several films, such as "Dr. Zhivago" and "Lawrence of Arabia," totaling over 4,000 pages. Jarre retained rights to copyrights and publication. The manuscripts were in very good condition and were solicited by the university. Jarre claimed deductions of $54,200 and $61,900 for these contributions, but the IRS challenged these valuations.

Procedural History

The IRS initially disallowed the claimed deductions, asserting that Jarre did not own the donated material, but later conceded this point. The IRS then argued for lower valuations of $5,875 and $2,775 for 1967 and 1968, respectively, which were later adjusted to $7,615 and $4,915. The case proceeded to the U. S. Tax Court, where the fair market value of the contributions was contested.

Issue(s)

1. Whether the fair market value of Maurice Jarre's contributions of music manuscripts to the University of Southern California in 1967 was $54,200 as claimed by Jarre, or $7,615 as contended by the IRS.
2. Whether the fair market value of Maurice Jarre's contributions of music manuscripts to the University of Southern California in 1968 was $61,900 as claimed by Jarre, or $4,915 as contended by the IRS.

Holding

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1. No, because the court determined the fair market value to be $45,000, considering Jarre's reputation, the condition of the manuscripts, and the limited but existent market for such items.
2. No, because the court determined the fair market value to be $31,000, based on similar considerations as for the 1967 contributions.

Court's Reasoning

The court applied the standard from section 1. 170-1(c)(1) of the Income Tax Regulations, which defines fair market value as the price at which property would change hands between a willing buyer and a willing seller. The court considered factors such as Jarre's standing in the music industry, the critical and popular appeal of his works, the condition and content of the manuscripts, and the demand for similar items. The court noted the limited market for complete film scores but recognized that shorter segments could be sold and that Jarre's works had substantial value due to his reputation and the popularity of his music. The court weighed the testimony of expert witnesses, noting the daily dealings of Jarre's experts in cinema memorabilia as a factor in their credibility. The court rejected the IRS's argument that a limited market precluded substantial value, finding that Jarre's contributions were worth more than the IRS's valuations but less than Jarre's claims.

Practical Implications

This decision impacts how unique property contributions, such as original artworks or manuscripts, are valued for tax deduction purposes. It emphasizes the need to consider a broad range of factors, including the creator's reputation and market demand, rather than focusing solely on comparable sales. For legal practitioners, this case highlights the importance of thorough appraisals and the potential for disputes over valuation, especially for items without a well-established market. Businesses and individuals making charitable contributions of unique items should be aware that their valuations may be challenged and should prepare comprehensive documentation to support their claims. Subsequent cases, such as Estate of David Smith, have applied similar principles in valuing unique artistic contributions.

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