***Cupler v. Commissioner, 66 T. C. 22 (1976)***

The fair market value of unique, specialized equipment donated for charitable purposes is determined by considering all relevant facts, including cost of reproduction and intended use, not merely expert appraisals based on development costs.

**Summary**

In Cupler v. Commissioner, the Tax Court addressed the valuation of unique medical equipment donated to charitable organizations. The taxpayer, an inventive engineer, donated a cataract machine and a heart-lung machine to hospitals in 1967 and 1969, respectively. The key issue was determining the fair market value of these specialized devices for tax deduction purposes. The court rejected the taxpayer's expert valuations based on development costs, instead focusing on the equipment's actual value at the time of donation. The court found the cataract machine to be worth $10,000 and the heart-lung machine $15,000, considering their intended use and comparables rather than the cost to recreate them.

**Facts**

Mr. Cupler, a successful engineer, invented a cataract machine in 1967 and donated it to the University of Maryland Hospital. He also developed a heart-lung machine in 1969 and donated it to St. Barnabas Hospital. Both machines were unique and specialized for medical research. The cataract machine was designed to remove cataracts without removing the lens, while the heart-lung machine facilitated research on chick embryos. Cupler incurred significant out-of-pocket expenses in developing both machines and claimed charitable deductions based on high valuations provided by his experts, which were based on estimated development costs.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in Cupler's federal income taxes for several years, challenging the charitable deductions claimed for the donations of the machines and building stone. Cupler contested these deficiencies in the Tax Court. At trial, the court ruled that Cupler had indeed donated the machines and stone to the respective charitable organizations. The primary issue then became the valuation of these donations.

**Issue(s)**

1. Whether the cataract machine donated to the University of Maryland Hospital in 1967 had a fair market value of $10,000?
2. Whether the heart-lung machine donated to St. Barnabas Hospital in 1969 had a fair market value of $15,000?
3. Whether the building stone donated to Emanuel Episcopal Church in 1965 had a

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fair market value of $12,000 plus out-of-pocket expenses?

## Holding

1. Yes, because the court found that the machine's value was best determined by its intended use and a comparable machine's market price, rather than the high development costs estimated by the taxpayer's experts.
2. Yes, because the court considered the machine's unique purpose and successful application in research, valuing it higher than the cataract machine due to its complexity and utility.
3. Yes, because the court accepted the valuation of the stone based on its rarity and utility for the church's construction needs, plus the taxpayer's out-of-pocket expenses.

## Court's Reasoning

The court rejected the taxpayer's approach of valuing the machines based on estimated development costs, as this included time spent on background study and trial-and-error development which should not be considered in determining the value of the donated property itself. The court emphasized that the fair market value standard of a willing buyer and seller was not helpful in this case due to the uniqueness of the equipment. Instead, it considered factors such as the machines' intended use, comparables like the Douvas machine for the cataract device, and the success of the heart-lung machine in its research application. The court also noted the lack of patent rights transfer, which would have added significant value to the donations. Ultimately, the court used its judgment to value the machines at $10,000 and $15,000 respectively, based on all relevant facts.

## Practical Implications

This decision has significant implications for how unique charitable contributions are valued for tax purposes. Taxpayers should not rely solely on development costs or expert appraisals when claiming deductions for specialized equipment. Instead, they should consider the equipment's actual market value at the time of donation, its intended use, and any comparables in the market. This case also highlights the importance of documenting the transfer of any intangible rights, such as patents, which could substantially increase the value of a donation. For legal practitioners, this decision serves as a reminder to carefully scrutinize valuation methods and ensure that claimed deductions are supported by evidence of the property's fair market value, not just the cost to recreate it.

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