Buehner v. Commissioner, 65 T. C. 723, 1976 U. S. Tax Ct. LEXIS 176 (1976)

A charitable remainder trust is a valid entity for tax purposes if it is irrevocably committed to charitable purposes, and contributions to such trusts may be deductible if the assets transferred have value and are likely to benefit the charitable remaindermen.

Summary

Paul Buehner created four charitable remainder trusts, retaining a life income interest and naming charitable organizations as remaindermen. The trusts sold their assets to a pension trust controlled by Buehner, with the proceeds loaned back to his corporation. The Commissioner challenged the validity of the trusts, the tax treatment of the sales, and the deductibility of Buehner's contributions. The Tax Court upheld the trusts as valid entities, ruled that the income from the sales was not taxable to Buehner, and allowed his charitable contribution deductions, finding the assets had value and were irrevocably committed to charitable purposes.

Facts

Paul Buehner established four irrevocable charitable remainder trusts between 1962 and 1965, with himself and his wife as trustees and life income beneficiaries. The remaindermen were the Paul Buehner Foundation and the Church of Jesus Christ of Latter-Day Saints. Assets transferred to the trusts included stock and limited partnership interests, which the trusts subsequently sold to a pension trust controlled by Buehner. The sale proceeds were loaned back to Buehner's corporation, Otto Buehner & Co. , in the form of unsecured notes. Buehner claimed charitable contribution deductions for the value of the remainder interests in the assets transferred to the trusts.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Buehner's federal income taxes for 1965 and 1966, arguing that the trusts were not viable entities, the sales were prearranged, and Buehner should be taxed on the gains. Buehner petitioned the U. S. Tax Court, which found in his favor, upholding the validity of the trusts and allowing his charitable deductions.

Issue(s)

1. Whether the charitable remainder trusts established by Buehner were valid entities for tax purposes.
2. Whether the income realized by the trusts from the sales to the pension trust was attributable and taxable to Buehner.
3. Whether Buehner was entitled to charitable contribution deductions for the assets transferred to the trusts.

Holding

1. Yes, because the trusts were irrevocably committed to charitable purposes, had independent significance, and were not shams or conduits for Buehner's benefit.
2. No, because Buehner did not possess the requisite power over the trusts to be treated as the owner of the trust corpora under sections 675(3) or 675(4) of the Internal Revenue Code.
3. Yes, because the assets transferred had value, were irrevocably committed to charitable purposes, and were likely to benefit the charitable remaindermen.

Court's Reasoning

The court found that the trusts were valid because they were created with a clear charitable purpose and effectively conveyed the remainder interest to the charitable remaindermen. The court rejected the Commissioner's arguments that the trusts were shams or conduits, emphasizing that Buehner was accountable to various parties in different capacities (e. g. , as trustee, corporate officer, and pension trust committee member). The court also found that the sales to the pension trust were not prearranged and that the loans to Otto Buehner & Co. did not cause Buehner to be treated as the owner of the trust corpora under sections 675(3) or 675(4). The court upheld Buehner's charitable contribution deductions, finding that the assets transferred had value and were irrevocably committed to charitable purposes.

Practical Implications

This decision clarifies that charitable remainder trusts can be valid entities for tax purposes even if the grantor retains significant control over related entities, as long as the trusts are irrevocably committed to charitable purposes and the grantor is accountable to other parties. Attorneys should ensure that such trusts are properly structured and documented to withstand challenges to their validity. The decision also reinforces the principle that contributions to charitable remainder trusts are deductible if the assets transferred have value and are likely to benefit the charitable remaindermen. Practitioners should carefully value assets transferred to such trusts and document the charitable intent and commitment of the assets to the remaindermen. Subsequent cases have cited Buehner in upholding the validity of charitable remainder trusts and the deductibility of contributions to them.