Withers v. Commissioner, 69 T. C. 900 (1978)

The charitable contribution deduction for donated property is limited to the property's fair market value at the time of donation, not the donor's tax basis.

Summary

In Withers v. Commissioner, the taxpayers donated stock with a basis exceeding its fair market value to a charity. They sought to deduct their basis rather than the stock's fair market value. The U. S. Tax Court ruled that the charitable contribution deduction under Section 170 of the IRC is limited to the fair market value of the donated property. Additionally, the court held that the taxpayers could not claim a separate loss deduction under Section 165 for the difference between their basis and the stock's fair market value because the loss was neither sustained nor recognized under the tax code. This decision reaffirmed that charitable contributions of property are valued at fair market value for deduction purposes, regardless of the donor's basis in the property.

Facts

LaVar M. and Marlene Withers donated shares of corporate stock to the Church of Jesus Christ of Latter-Day Saints in 1973. The aggregate basis of the shares was $10,646. 31, while their fair market value at the time of donation was $3,520. 25. The Withers claimed a charitable contribution deduction of $10,646. 31 on their 1973 tax return, based on their basis in the stock. The IRS limited their deduction to the stock's fair market value of $3,520. 25, prompting the Withers to petition the Tax Court.

Procedural History

The Withers filed a joint Federal income tax return for 1973 and were assessed a deficiency of $3,811. 53 by the IRS. They petitioned the U. S. Tax Court to challenge the IRS's limitation of their charitable contribution deduction to the fair market value of the donated stock and their inability to claim a loss deduction for the difference between their basis and the stock's fair market value.

Issue(s)

1. Whether the Withers' charitable contribution deduction under Section 170 of the IRC can be based on their basis in the donated stock rather than its fair market value at the time of donation.
2. Whether the Withers can claim a loss deduction under Section 165 of the IRC for the difference between their basis and the fair market value of the donated stock.

Holding

1. No, because the charitable contribution deduction under Section 170 is limited to

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the fair market value of the property at the time of donation, as established by the IRC and its regulations.
2. No, because the loss realized by the Withers was neither sustained nor recognized under Sections 165 and 1001 of the IRC, as they received no consideration for their charitable contribution.

Court's Reasoning

The court relied on Section 170 of the IRC, which limits the charitable contribution deduction to the fair market value of the donated property, subject to certain modifications. The court rejected the Withers' argument that they should be allowed to deduct their basis, which included unrealized depreciation, citing the absence of statutory authority or case law supporting such a deduction. The court also noted that Section 170(e) reduces deductions for appreciated property but does not provide for an increased deduction for property with a basis exceeding its fair market value. Regarding the loss deduction, the court distinguished the Withers' case from cited precedents involving business deductions, emphasizing that the Withers received no consideration for their charitable contribution. The court applied Section 1001 to determine that the Withers realized a loss but concluded that the loss was not sustained under Section 165(a) nor recognized under Section 165(c), as it did not fit the criteria for deductible losses.

Practical Implications

Withers v. Commissioner clarifies that taxpayers cannot deduct their basis in donated property when it exceeds the property's fair market value. This ruling impacts how attorneys and taxpayers should approach charitable contributions of depreciated property, emphasizing the need to accurately assess the fair market value at the time of donation. The decision also affects tax planning, as it prevents taxpayers from using charitable contributions to offset unrealized losses. Practitioners must advise clients to carefully document the fair market value of donated assets and be aware that no loss deduction is available for charitable contributions of property with a basis exceeding its fair market value. Subsequent cases have followed this principle, reinforcing the limitation of charitable contribution deductions to fair market value.

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