Anselmo v. Commissioner, 87 T. C. 709 (1986)

The fair market value of donated property for charitable deduction purposes is determined by the price at which the property would be sold to the ultimate consumer in the market where it is most commonly sold.

Summary

In Anselmo v. Commissioner, the Tax Court determined the fair market value of low-quality colored gems donated to the Smithsonian Institution for charitable deduction purposes. The key issue was whether the gems should be valued as a bulk sale or as individual stones sold to jewelry stores, the ultimate consumers. The court held that the valuation should reflect the market where the gems are most commonly sold to the public, which was the sale of individual stones to jewelry stores. Due to flawed expert valuations, the court upheld the IRS's initial valuation of $16,800. This case emphasizes the importance of accurately identifying the relevant market for valuation purposes in charitable contributions.

Facts

Ronald P. Anselmo donated colored gems to the Smithsonian Institution in 1977, claiming a charitable deduction of $80,680. The IRS determined the gems' fair market value was $16,800, later arguing for a reduced value of $9,295. Anselmo had purchased the gems through an investment firm, which provided appraisals valuing the gems at retail. The gems were of low quality and typically sold to jewelry stores in small quantities or individually, not in bulk.

Procedural History

The IRS issued a notice of deficiency for Anselmo's 1977 and 1978 tax returns, reducing the charitable deduction to $16,800. Anselmo petitioned the Tax Court. At trial, both parties presented expert valuations, but the court found all valuations flawed. The court upheld the IRS's initial valuation of $16,800, as neither party met their burden of proof for a different valuation.

Issue(s)

1. Whether the fair market value of the donated gems should be based on their bulk sale value or their individual sale value to jewelry stores?

Holding

1. Yes, because the fair market value for charitable deduction purposes must reflect the market in which the gems are most commonly sold to the public, which is the sale of individual stones to jewelry stores, not bulk sales.

Court's Reasoning

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The court applied the fair market value standard from section 1. 170A-1(c)(2), Income Tax Regs. , which defines it as the price at which property would change hands between a willing buyer and a willing seller. The court relied on Estate and Gift Tax Regulations, which specify that valuation should reflect the market where the item is most commonly sold to the public. Here, the relevant market was the sale of individual stones to jewelry stores, as these stores were the ultimate consumers of the gems, using them to create jewelry. The court rejected both parties' expert valuations: petitioner's experts valued the gems based on retail jewelry prices, while respondent's experts assumed a bulk sale, which was not typical for these gems. The court found no reliable way to adjust these valuations to accurately reflect the correct market, leading to the upholding of the IRS's initial valuation.

Practical Implications

This decision clarifies that for charitable contribution deductions, the fair market value of donated property must be assessed based on the market where it is most commonly sold to the ultimate consumer. For similar cases involving the donation of goods, practitioners should carefully analyze the typical market for the donated items, especially if the items are not sold directly to the public. This ruling may affect how donors and their advisors value donations of non-retail items, ensuring that valuations are aligned with the relevant market. Additionally, it highlights the importance of obtaining accurate, market-specific appraisals to support charitable deductions. Subsequent cases involving the valuation of donated property have referenced Anselmo to emphasize the need to identify the correct market for valuation purposes.

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