***Miedaner v. Commissioner, 81 T. C. 272 (1983)***

An individual cannot avoid taxation by assigning income to a church they control, nor claim charitable deductions for personal expenses.

**Summary**

Terrel Miedaner assigned royalties from his book to a church he founded, the Church of Physical Theology, claiming the income was exempt and contributions to the church were deductible. The IRS challenged this, arguing Miedaner retained control over the income and used the church for personal benefit. The Tax Court held that Miedaner's assignment was ineffective for tax purposes because he retained control over the income and the church was his alter ego. The court also disallowed charitable deductions, finding the church's net earnings inured to Miedaner's benefit.

**Facts**

Terrel Miedaner wrote "The Soul of Anna Klane" and in 1976, granted exclusive publication rights to a publisher in exchange for royalties. He then assigned all rights to the book to the Church of Physical Theology, which he and his wife founded. Royalties were paid to the church, and Miedaner directed these funds for his personal use, including living expenses and asset purchases. The church's income was primarily from the book royalties and contributions from Miedaner, with minimal external contributions. Miedaner claimed charitable deductions for these contributions on his tax returns.

**Procedural History**

The IRS issued a notice of deficiency for 1977-1979, asserting that royalties should be taxed to Miedaner and disallowing charitable deductions. Miedaner petitioned the U. S. Tax Court, which upheld the IRS's determinations.

**Issue(s)**

1. Whether royalties from the book are taxable to Miedaner despite the assignment to the church.
2. Whether Miedaner is entitled to charitable deductions for contributions made to the Church of Physical Theology.
3. Whether the IRS is precluded by equitable estoppel from raising these issues.

**Holding**

1. Yes, because Miedaner retained control over the royalties and the church was his alter ego, used for personal benefit.
2. No, because the church's net earnings inured to Miedaner's benefit, and the contributions were used for personal expenses.

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3. No, because the church operated differently from its representations to the IRS and Miedaner cannot claim estoppel as the church's founder.

**Court's Reasoning**

The court found that Miedaner's assignment of royalties to the church was ineffective for tax purposes because he retained control over the income. The church was deemed Miedaner's alter ego, serving his personal interests rather than a genuine religious or charitable purpose. The court cited cases like *Corliss v. Bowers* and *Commissioner v. Sunnen* to support its view that income subject to a person's unfettered command is taxable to them. The charitable deductions were disallowed under Section 170(c)(2)(B) and (C) because the church's earnings benefited Miedaner personally. The court also rejected the estoppel argument, noting the church's operations deviated from its initial representations to the IRS.

**Practical Implications**

This decision reinforces that individuals cannot use a church they control to avoid taxes by assigning income to it. It highlights the importance of a clear separation between personal and church finances for tax purposes. The ruling also affects how charitable deductions are scrutinized, particularly when contributions fund personal expenses. Legal practitioners should advise clients that the IRS will closely examine arrangements where churches are used for tax avoidance, and such schemes are unlikely to withstand judicial scrutiny. This case has been cited in subsequent rulings to challenge similar tax avoidance strategies involving religious organizations.

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