83 T.C. 575 (1984)

Payments to a church or religious organization are not deductible as charitable contributions if they are made with the expectation of receiving a specific benefit, constituting a quid pro quo rather than a voluntary gift.

Summary

In this case, the United States Tax Court addressed whether payments made to the Church of Scientology for auditing and training sessions qualified as deductible charitable contributions under Section 170 of the Internal Revenue Code. The court held that these payments were not deductible because they were made with the expectation of receiving a commensurate benefit in the form of religious services, thus constituting a quid pro quo. The court further rejected the petitioners' claims that denying the deduction violated their constitutional rights under the First and Fifth Amendments, emphasizing that tax deductions are a matter of legislative grace and that the denial was based on neutral, secular criteria applicable to all taxpayers.

Facts

Petitioners Katherine Jean Graham, Richard M. Hermann, and David Forbes Maynard each made payments to various Churches of Scientology. These payments were for participation in auditing and training courses offered by the Church. The Church of Scientology operated under a doctrine of exchange, requiring "fixed donations" for its services. These donations were generally a prerequisite for receiving auditing and training, and they constituted the majority of the Church's funds. Petitioners deducted these payments as charitable contributions on their federal income tax returns. The Commissioner of Internal Revenue disallowed these deductions, arguing that the payments were not charitable contributions or gifts, but rather payments for services.

Procedural History

The Internal Revenue Service (IRS) issued notices of deficiency disallowing the charitable contribution deductions claimed by Graham, Hermann, and Maynard. The petitioners contested these deficiencies in the United States Tax Court. The cases were consolidated for trial.

Issue(s)

1. Whether payments made by petitioners to the Church of Scientology for auditing and training sessions are deductible as charitable contributions under Section 170(c) of the Internal Revenue Code.
2. Whether the denial of these deductions violates petitioners' constitutional rights under the First Amendment (Free Exercise and Establishment Clauses) or the Fifth Amendment (Due Process Clause).

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Holding

1. No, because the payments were not "contributions" or "gifts" within the meaning of Section 170(c). The payments were made with the expectation of receiving a benefit in return, constituting a quid pro quo.
2. No, because there is no constitutional right to a tax deduction, and the denial in this case does not violate the First or Fifth Amendments.

Court's Reasoning

The Tax Court reasoned that for a payment to qualify as a charitable contribution, it must be a "contribution or gift," which is defined as a voluntary transfer of property without consideration. Citing *DeJong v. Commissioner*, the court emphasized that a gift is a "*voluntary transfer* of property by the owner to another *without consideration* therefor." The court found that the petitioners' payments were not voluntary gifts because they were made with the expectation of receiving a direct benefit – the religious services of auditing and training. The Church of Scientology required fixed donations for these services, and petitioners made these payments to gain access to these services. As stated in the opinion, "where contributions are made with the expectation of receiving a benefit, and such benefit is received, the transfer is not a charitable contribution, but rather a quid pro quo."

Regarding the constitutional arguments, the court stated that tax deductions are a matter of legislative grace, not a constitutional right. Referencing *Cammarano v. United States*, the court noted, "Petitioners are not being denied a tax deduction because they engage in constitutionally protected activities, but are simply being required to pay for those activities entirely out of their own pockets…" The court rejected the argument that denying the deduction violated the Establishment Clause, distinguishing *Larson v. Valente* and asserting that Section 170 applies secular criteria neutrally to all religious organizations. The court also dismissed the claim of selective discriminatory action, finding no evidence to support it.

Practical Implications

Graham v. Commissioner is a significant case illustrating the application of the quid pro quo doctrine in the context of religious donations and charitable contribution deductions. It clarifies that payments to religious organizations are not automatically deductible as charitable contributions; the nature of the transaction matters. If a taxpayer expects to receive a specific benefit in return for their payment, such as services or goods, the payment is likely to be considered a quid pro quo and not a deductible charitable gift. This case is frequently cited in cases involving donations to religious entities where a direct benefit is received by the donor. Legal practitioners must advise clients that for a donation to a religious organization to be deductible, it must be a truly gratuitous transfer made without the expectation of a specific, tangible benefit. Subsequent cases have further refined the quid pro quo doctrine, but *Graham* remains a key precedent for understanding

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the limitations on deductibility when receiving benefits from religious contributions.

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