Lio v. Commissioner, 85 T. C. 56 (1985)

The fair market value of donated property for charitable contribution purposes should be based on the market in which the donor purchased the property as the ultimate consumer.

Summary

In Lio v. Commissioner, the Tax Court determined that the fair market value of lithographs donated to charity should be based on the price paid in the market where the donor purchased them, not on higher retail prices from other markets. Petitioners Lio and Orth purchased lithographs in bulk for donation, arguing they should be valued at higher gallery prices. The court, however, found that the petitioners were the ultimate consumers and the bulk purchase market was the most active and appropriate for valuation. This ruling impacts how similar charitable contribution deductions are calculated, emphasizing the significance of the purchase context in determining fair market value.

Facts

Peter J. Lio purchased 150 unframed William Nelson lithographs for $7,500 from Art Appraisers of America, Ltd. (AAA) in 1977, and donated them to the Rockford Art Association/Burpee Art Museum after holding them for over 9 months. David H. Orth purchased 100 unframed Leonardo Nierman lithographs for $10,000 from Greenwich Art Consultants, Inc. in 1978, and donated 73 to various charities in 1979. Both sought charitable contribution deductions based on higher retail prices from galleries and dealers rather than their purchase prices.

Procedural History

The Commissioner disallowed the excess of the claimed deductions over the petitioners' cost basis. The Tax Court consolidated the cases and heard them together, focusing on the valuation of the lithographs for charitable contribution purposes.

Issue(s)

1. Whether the fair market value of the donated lithographs should be based on the market in which the petitioners purchased them, or on a different market where they are commonly sold to the public?

Holding

1. Yes, because the petitioners were the ultimate consumers of the lithographs, and the market in which they purchased them was the most active and appropriate market for valuation.

Court's Reasoning

The court applied the principle that the fair market value of donated property is the price at which it would change hands between a willing buyer and seller, both having reasonable knowledge of relevant facts. It emphasized that the most appropriate market for valuation is where the item is most commonly sold to the ultimate consumer. The court found that the petitioners purchased the lithographs for their own use or for donation, not for resale, making them the ultimate consumers. The bulk purchase market dominated by AAA and Greenwich was the most active and relevant for valuation, rather than the limited sales in galleries or by small dealers. The court rejected the petitioners' valuation based on higher retail prices, citing cases like Anselmo v. Commissioner and Skripak v. Commissioner, which supported valuation based on the most active market for the item. The court also noted the lack of evidence of significant appreciation between purchase and donation, further supporting the use of purchase price for valuation.

Practical Implications

This decision affects how charitable contribution deductions are calculated for property purchased in bulk for donation. Taxpayers must consider the market in which they purchased the property as the ultimate consumer when determining its fair market value, rather than relying on higher retail prices from other markets. This ruling may lead to more scrutiny of bulk purchase arrangements designed to inflate charitable deductions. It also reinforces the importance of documenting the purchase context and market activity when valuing donated property. Subsequent cases like Chiu v. Commissioner have applied this principle, emphasizing the reliability of actual purchase prices as evidence of value in the absence of significant appreciation.

