Wedvik v. Commissioner, 87 T. C. 1458 (1986)

No charitable contribution deduction is allowed when payments to charitable organizations are repaid to the donor.

Summary

The Wedviks claimed substantial charitable deductions for payments made to Universal Life Churches and a related fund, which were immediately repaid to them. The Tax Court found these transactions were not genuine contributions due to the lack of relinquishment of control over the funds and the expectation of repayment. The court also determined that the Wedviks were liable for fraud penalties because they knowingly engaged in a scheme to defraud the IRS by claiming deductions for these non-contributions.

Facts

The Wedviks, residents of Washington, claimed charitable deductions for payments made to various Universal Life Churches and a fund maintained by the Universal Life Church, Inc. These payments were systematically repaid to the Wedviks or their own church. The repayment was facilitated through direct check swaps or more complex transactions involving other church charter holders. The Wedviks maintained a personal account and a church account, using the latter for personal expenses. They also filed a false Form W-4 claiming excessive withholding exemptions, which contributed to large tax refunds despite their fraudulent deductions.

Procedural History

The Commissioner of Internal Revenue disallowed the Wedviks' claimed charitable deductions and assessed deficiencies and fraud penalties. The Wedviks petitioned the U. S. Tax Court, which upheld the Commissioner's determinations, ruling that no charitable contributions were made and that the Wedviks were liable for fraud penalties.

Issue(s)

1. Whether the Wedviks are entitled to deduct payments made to Universal Life Churches and a related fund as charitable contributions.
2. Whether the Wedviks are liable for fraud penalties under section 6653(b) of the Internal Revenue Code.

Holding

1. No, because the payments were not actual contributions as they were repaid to the Wedviks, indicating they did not relinquish dominion and control over the funds.
2. Yes, because the Wedviks knowingly engaged in a scheme to defraud the IRS by

claiming deductions for payments that were not genuine contributions.

Court's Reasoning

The court applied section 170 of the Internal Revenue Code, which requires a charitable contribution to be a payment made to a qualified organization without expectation of a quid pro quo. The Wedviks' payments were not contributions because they expected and received repayments, as evidenced by systematic check swaps. The court rejected the Wedviks' claim of ignorance about the repayments, finding their testimony not credible. The court also noted that the Wedviks' church did not meet the requirements for a charitable organization under section 170(c)(2), as its funds were used for personal expenses. For the fraud penalty, the court found clear and convincing evidence of intent to evade taxes through the check-swapping scheme, false withholding exemptions, and attempts to conceal financial records. The court cited *Davis v. Commissioner* and other cases to support its findings.

Practical Implications

This case underscores the importance of genuine relinquishment of control for a payment to qualify as a charitable contribution. Tax practitioners must advise clients that any expectation of repayment or benefit negates a charitable deduction. The decision also reinforces the IRS's ability to impose fraud penalties for intentional tax evasion schemes, highlighting the need for thorough documentation and transparency in dealings with charitable organizations. Subsequent cases involving similar schemes have relied on Wedvik to deny deductions and assess penalties, emphasizing the precedent's role in deterring fraudulent tax practices.

