Goldstein v. Commissioner, 89 T. C. 535 (1987)

The fair market value of a charitable contribution of property financed with promissory notes is determined by the present discounted value of those notes plus any cash payment made at the time of the contribution.

Summary

In Goldstein v. Commissioner, the petitioners purchased posters from an art dealer using a small cash payment and promissory notes, then donated the posters to a temple. The key issue was the valuation of the charitable contribution. The court held that a valid charitable contribution was made in 1980 and determined its fair market value to be the sum of the cash payment and the present discounted value of the promissory notes, rejecting the petitioners' claim based on the posters' retail price. This case illustrates the importance of using the appropriate market for valuation and considering the financing terms in determining the value of a charitable donation.

Facts

Joel and Elaine Goldstein purchased warehouse receipts representing posters from Sherwood International, Inc. , on December 27, 1980. They paid $4,000 in cash and executed four recourse promissory notes, each for $4,000, with a 9% annual interest rate, due in 1995. On December 31, 1980, the Goldsteins donated the warehouse receipts to Temple Sinai. In 1981, Temple Sinai sold the receipts back to Sherwood. The Goldsteins claimed a $20,000 charitable contribution deduction on their 1980 tax return, based on the posters' retail price.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the Goldsteins' 1980 income tax and an addition for negligence. The Goldsteins petitioned the U. S. Tax Court, which held that a valid charitable contribution was made in 1980 but valued it at the present discounted value of the notes and the cash payment, not the retail price of the posters.

Issue(s)

1. Whether the Goldsteins made a valid charitable contribution to Temple Sinai in 1980.
2. Whether the fair market value of the charitable contribution should be determined based on the retail price of the posters or the price the Goldsteins paid, including the present discounted value of their promissory notes.

Holding

1. Yes, because the Goldsteins intended to donate the posters to Temple Sinai,

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executed a power of attorney for the transfer, and the temple accepted the donation in 1980.
2. No, because the appropriate market for valuation was the one in which the Goldsteins purchased the posters, and the fair market value was the cash payment plus the present discounted value of the notes, not the posters' retail price.

Court's Reasoning

The court applied the substance-over-form doctrine, focusing on the posters represented by the warehouse receipts rather than the receipts themselves. It determined that a valid charitable contribution was made in 1980, as the Goldsteins had donative intent, executed a power of attorney, and Temple Sinai accepted the donation. The court rejected the Commissioner's argument that the transaction was not complete until 1981, finding no evidence of a prearranged agreement for the temple to resell the posters to Sherwood. Regarding valuation, the court followed the precedent set in Lio v. Commissioner, identifying the Goldsteins as the ultimate consumers and the market in which they purchased the posters as the appropriate retail market. It valued the contribution at the price the Goldsteins paid, which included the $4,000 cash payment and the present discounted value of the promissory notes, calculated using a 22% discount rate based on the prime lending rate at the time.

Practical Implications

This decision clarifies that when valuing charitable contributions of property financed with promissory notes, the fair market value is determined by the cash payment and the present discounted value of the notes, not the property's retail price. Attorneys should advise clients to carefully document the terms of any financing used to acquire donated property and be prepared to calculate the present value of any notes using appropriate discount rates. This case also emphasizes the importance of identifying the correct market for valuation purposes, which may differ from the general retail market. Subsequent cases, such as Skripak v. Commissioner, have applied similar reasoning in valuing charitable contributions of property. Taxpayers and practitioners should be aware of the potential for negligence penalties if they substantially overstate the value of charitable contributions.

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