Winokur v. Commissioner, 90 T. C. 733 (1988)

A charitable contribution deduction for an undivided interest in tangible personal property is allowable when the donee organization is entitled to possession, dominion, and control of the property for the portion of each year equal to its interest, even if the donee does not take physical possession.

Summary

James L. Winokur donated undivided interests in 44 works of art to the Carnegie Institute in 1977 and 1978, claiming charitable deductions. The Commissioner challenged these deductions, arguing the Institute did not take physical possession of the art. The Tax Court held that the donations qualified as charitable contributions under section 170 of the Internal Revenue Code because the deeds granted the Institute the right to possession, even if not exercised. The court also valued nine of the artworks and found a valuation overstatement for 1979, triggering section 6621(c) interest.

Facts

James L. Winokur donated a 10% undivided interest in 44 works of art to the Carnegie Institute on December 28, 1977, and another 10% interest on December 7, 1978. The deeds of gift granted the Institute the right to possess the works for a portion of each year equal to its interest. However, the Institute did not take physical possession during the first year following either donation. Winokur claimed charitable contribution deductions of $35,700 and $35,343 for 1977 and 1978, respectively. In 1979, he donated an 80% interest in five of the works and claimed a deduction of $57,381.

Procedural History

The Commissioner issued a notice of deficiency disallowing the charitable deductions for 1977 and 1978, claiming the Institute did not take possession of the artworks. The case proceeded to the United States Tax Court, where the parties disputed the validity of the deductions and the valuation of nine specific artworks.

Issue(s)

1. Whether the undivided interests donated in 1977 and 1978 qualify as charitable contribution deductions under section 170 of the Internal Revenue Code.
2. What is the fair market value of eight paintings and one sculpture donated in those years?
3. Whether the underpayments for 1979 constitute substantial underpayments attributable to tax-motivated transactions under section 6621(c).

Holding

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1. Yes, because the deeds granted the Carnegie Institute the right to possession, dominion, and control of the artworks for a portion of each year equal to its interest, even if the Institute did not take physical possession.
2. The court determined specific values for the nine artworks as of December 1977, adjusting for inflation for 1978 and 1979 valuations.
3. Yes, for 1979, because the valuation overstatement exceeded 150% of the correct value, triggering the section 6621(c) interest addition.

Court’s Reasoning

The court focused on the language of section 170 and related regulations, which require the donee to have the right to possession, not necessarily actual possession, for a charitable deduction to be valid. The deeds of gift gave the Carnegie Institute such a right, satisfying the requirements of section 1. 170A-7(b)(1) of the Income Tax Regulations. The court valued the artworks based on expert testimony and comparable sales, acknowledging the inherent imprecision in valuation disputes. For 1979, the court found a valuation overstatement, applying section 6621(c) interest due to the substantial underpayment resulting from the overstatement.

Practical Implications

This decision clarifies that charitable deductions for undivided interests in tangible personal property are valid when the donee has the right to possession, even if not exercised. This ruling impacts how similar cases should be analyzed, emphasizing the importance of the legal rights granted in the deed of gift over actual use. It also affects legal practice in the area of tax deductions for art donations, requiring careful drafting of deeds to ensure compliance with section 170. The valuation aspect of the decision underscores the challenges and subjective nature of art valuation in tax disputes. Subsequent cases have cited Winokur to distinguish between present and future interests in charitable contributions of tangible property.

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