Dew v. Commissioner, 91 T. C. 615 (1988)

A taxpayer cannot claim a charitable contribution deduction for funds contributed to an entity that does not meet the statutory requirements for a qualified charitable organization, and pursuing a frivolous tax claim can result in damages under section 6673.

Summary

James Edward Dew attempted to deduct contributions to a local chapter of the Universal Life Church (ULC No. 21686) as charitable donations. The court found that ULC No. 21686 did not qualify as a charitable organization because it did not operate exclusively for exempt purposes and its funds were used for personal expenses of its members. The court also imposed damages under section 6673 for Dew's frivolous claims, highlighting that such deductions require adherence to strict statutory criteria and that pursuing groundless arguments can lead to penalties.

Facts

James Edward Dew obtained a charter for ULC No. 21686 from the Universal Life Church in Modesto, California. During 1980 and 1981, Dew and his coworkers at Computer Sciences Corp. contributed to ULC No. 21686, claiming these as charitable deductions. The group operated without a meeting place, telephone, or employees, using a bank account to pay personal expenses of its members, including rent and utilities. Dew claimed deductions of $11,048 and $14,835 for 1980 and 1981, respectively, which were disallowed by the IRS.

Procedural History

The IRS disallowed Dew's claimed charitable contribution deductions, leading to a deficiency determination and additions to tax for negligence. Dew petitioned the United States Tax Court, which upheld the IRS's decision, denying the deductions and imposing damages under section 6673 for maintaining a frivolous position.

Issue(s)

1. Whether Dew is entitled to deductions for charitable contributions to ULC No. 21686.
2. Whether Dew is liable for additions to tax for negligence under section 6653(a).
3. Whether Dew is liable for damages under section 6673.

Holding

1. No, because ULC No. 21686 did not meet the statutory requirements for a qualified charitable organization, as it was not organized and operated exclusively for an exempt purpose and its funds inured to the benefit of private individuals.
2. Yes, because Dew's claim of deductions was based on a check-swapping scheme

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and lacked any plausible explanation, demonstrating negligence.
3. Yes, because Dew's arguments were frivolous and groundless, and he persisted despite being warned of the potential for damages.

Court's Reasoning

The court applied the statutory requirements for charitable contribution deductions under section 170, emphasizing that Dew failed to establish that ULC No. 21686 was a qualified entity. The court noted the circular flow of funds from members back to themselves as personal expenses, which violated the inurement test. The court also considered the burden of proof, which Dew failed to meet by not producing necessary records. The court's decision was influenced by previous rulings in similar Universal Life Church cases, rejecting the argument that ULC No. 21686 was part of the exempt ULC Modesto. The imposition of damages under section 6673 was based on the frivolous nature of Dew's claims, despite warnings and prior case law.

Practical Implications

This decision underscores the importance of ensuring that organizations meet the statutory requirements for charitable status before claiming deductions. It also serves as a warning to taxpayers about the potential consequences of pursuing frivolous tax claims, including the imposition of damages. Legal practitioners should advise clients on the strict criteria for charitable deductions and the necessity of maintaining thorough records. The case has been cited in subsequent rulings to deny deductions for similar schemes and to impose penalties for frivolous claims, reinforcing the need for adherence to tax laws and regulations.

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