885 Inv. Co. v. Commissioner, 95 T. C. 156 (1990)

A charitable contribution deduction is not allowable if the gift is subject to a condition whose occurrence is not so remote as to be negligible.

Summary

In 885 Inv. Co. v. Commissioner, the Tax Court ruled that a partnership's charitable contribution deductions for land donated to the city of Sacramento were invalid because the gifts were subject to a condition that was not negligible. The court held that the possibility of the land being returned to the partnership was realistic, thus disallowing the deductions. Additionally, the court addressed the applicability of the tax benefit rule upon the reconveyance of the donated parcels back to the partnership, concluding that only the fair market value of the reconveyed property, up to the amount of the prior deduction, should be included in income.

Facts

In 1979 and 1981, 885 Investment Co. donated parcels of land to the city of Sacramento for a scenic corridor project. The donations were made with the condition that if the city did not use the land for the corridor, it would be returned to 885. The city faced financial and legal uncertainties about the project, which increased the likelihood of the parcels being reconveyed. In 1983, due to the withdrawal of state funding and other concerns, the city reconveyed the parcels back to 885 with restrictions on their use.

Procedural History

The Commissioner of Internal Revenue disallowed the charitable contribution deductions claimed by 885 for 1979 and 1981, and issued a notice of final partnership administrative adjustment for 1983, increasing 885's income due to the reconveyance of the parcels. The Tax Court consolidated the cases involving the partnership and its partners to address the issues.

Issue(s)

1. Whether the individual partners are entitled to deduct their distributive share of 885's donation to the city in 1981, and if so, the amount thereof.
2. Whether the individual partners are liable for additions to tax under section 6659 and increased interest under section 6621(c).
3. Whether the Tax Court has jurisdiction over the partnership's case regarding the 1983 adjustment to income.
4. Whether 885 is required to recognize income upon the city's reconveyance of the donated properties in 1983, and if so, the amount thereof.

Holding

1. No, because the 1981 donation was subject to a condition whose occurrence was not so remote as to be negligible, disallowing the charitable contribution deduction.
2. No, because the disallowance of the charitable contribution deduction was not based on a valuation overstatement, the partners are not liable for the additions to tax or increased interest.
3. Yes, because the tax benefit item is a partnership item under section 6231(a)(3), the Tax Court has jurisdiction over the case.
4. No, for the 1981 parcel, as no deduction was allowable. Yes, for the 1979 parcel, the fair market value at the time of reconveyance must be included in income up to the amount of the prior deduction.

Court's Reasoning

The court applied the rule from section 1. 170A-1(e) of the Income Tax Regulations, which states that a charitable contribution deduction is not allowable if the gift is subject to a condition whose occurrence is not so remote as to be negligible. The court found that the likelihood of the donated parcels being returned was not negligible due to the city's financial and legal uncertainties regarding the scenic corridor project. The court also rejected the argument that the city's purchase of other land for the corridor showed a commitment to the project, as the city lacked funds to acquire all necessary land. For the tax benefit rule, the court followed Ninth Circuit precedent, rejecting the erroneous deduction exception and concluding that the fair market value of the reconveyed 1979 parcel, up to the amount of the prior deduction, must be included in income. The court determined the fair market value based on comparable land sales by the city.

Practical Implications

This decision clarifies that conditional charitable contributions, where the condition's occurrence is not negligible, do not qualify for deductions. Practitioners should carefully assess the likelihood of conditions being triggered when advising clients on charitable contributions. The ruling also impacts how the tax benefit rule applies to reconveyed property, limiting income inclusion to the fair market value at the time of reconveyance. This case may influence future cases involving conditional gifts and the tax treatment of reconveyed property, emphasizing the need for accurate valuation and documentation of charitable contributions.