Chronicle Pub. Co. v. Commissioner, 97 T. C. 445, 1991 U. S. Tax Ct. LEXIS 92, 97 T. C. No. 31 (U. S. Tax Ct. 1991)

A newspaper's clippings library, contributed to a charitable organization, is not a capital asset and thus subject to charitable deduction limitations.

Summary

The Chronicle Publishing Company donated its extensive clippings library to the California Historical Society, claiming a charitable deduction. The IRS disallowed the deduction, arguing the library was not a capital asset under IRC Section 1221(3) and thus subject to the deduction limits of IRC Section 170(e)(1)(A). The Tax Court agreed, holding that the clippings library constituted a 'corporate archive' and thus was not a capital asset. The court rejected the argument that IRC Section 1221(3) did not apply to corporations, finding that the library's nature as a collection of information prepared for the company precluded a charitable deduction due to the company's zero basis in the library.

Facts

The Chronicle Publishing Company operated a daily newspaper, the San Francisco Chronicle. It maintained a clippings library, compiled from Chronicle articles and other sources since 1906, which was used by both the public and Chronicle staff for research. In 1983 and 1984, the company donated this library, containing approximately 7. 8 million clippings, to the California Historical Society, claiming a charitable deduction. The company had previously deducted over $10 million in costs to create the library as business expenses, resulting in a zero basis at the time of donation.

Procedural History

The IRS disallowed the charitable deduction in a notice of deficiency dated May 31, 1990. The Chronicle Publishing Company petitioned the U. S. Tax Court, which severed the issue of the clippings library's characterization from other issues in the case. The Tax Court reviewed the case under Rule 122 and issued its opinion on October 29, 1991.

Issue(s)

1. Whether the newspaper clippings library is a capital asset under IRC Section 1221(3).
2. Whether IRC Section 1221(3) applies to corporations.

Holding

1. No, because the clippings library was a 'corporate archive' and thus similar to a letter or memorandum prepared for the taxpayer, making it ordinary income

property under IRC Section 1221(3)(B).
2. Yes, because the term ‘taxpayer’ in IRC Section 1221(3) includes corporations, as defined under IRC Section 7701(a)(14).

Court’s Reasoning

The Tax Court determined that the clippings library was not a capital asset under IRC Section 1221(3) because it fell under the category of ‘corporate archive,’ a type of ‘similar property’ as defined in the regulations. The court emphasized that the library was a collection of information prepared for the company, aligning with the ordinary meaning of ‘archive. ‘ The court also rejected the argument that IRC Section 1221(3) did not apply to corporations, citing the broad definition of ‘taxpayer’ under IRC Section 7701(a)(14). The court noted that the legislative history of IRC Section 1221(3) aimed to treat income from the sale of personal effort products as ordinary income, but the statute’s language did not limit its application to individuals. The court found no basis to treat the clippings library as a capital asset, given its characterization as a ‘corporate archive’ and the company’s zero basis in the library at the time of donation.

Practical Implications

This decision clarifies that contributions of non-capital assets, such as corporate archives, to charitable organizations may not qualify for charitable deductions if the donor has a zero basis in the asset. It emphasizes the importance of understanding the tax treatment of different types of property under IRC Section 1221(3). Legal practitioners should advise clients to carefully evaluate the nature of assets before claiming charitable deductions, especially for corporate entities. This ruling may influence how businesses structure their charitable giving strategies to maximize tax benefits, potentially leading to increased scrutiny of asset classifications for tax purposes. Subsequent cases have cited this decision when analyzing the scope of IRC Section 1221(3) and its application to various types of property donations.

