Lucky Stores, Inc. v. Commissioner, 105 T. C. 420 (1995)

Charitable contributions of perishable inventory can be valued at full retail price if the donor can demonstrate that the inventory could have been sold at that price at the time of contribution.

Summary

Lucky Stores, Inc. donated its surplus 4-day-old bread to food banks and claimed a charitable contribution deduction based on the bread's full retail price. The Commissioner argued that the fair market value should be 50% of the retail price due to the bread's age. The Tax Court held that Lucky Stores could value the bread at full retail price, as it demonstrated that the bread was sold at full price on Sundays and occasionally other days. The court emphasized the Congressional intent behind section 170(e)(3) to encourage donations to the needy, and noted that the donations did not allow Lucky Stores to be better off tax-wise than if it had sold the bread.

Facts

Lucky Stores, Inc. operated bakeries in California and Nevada, producing and selling various bakery products under the "Harvest Day" label. The company donated unsold 4-day-old bread to food banks, claiming charitable deductions based on the full retail price. The bread was removed from shelves on the fourth day after delivery, except for Thursday deliveries which were removed on Mondays. Lucky Stores did not offer age-related discounts but sold some 4-day-old bread at full retail price on Sundays. The Commissioner challenged the valuation, asserting that the fair market value was 50% of the retail price.

Procedural History

The Commissioner determined deficiencies in Lucky Stores' federal income tax for the years ending January 30, 1983, February 3, 1985, and February 2, 1986. Lucky Stores filed a petition with the United States Tax Court to contest the deficiencies. The court heard arguments on the fair market value of the donated bread and issued a decision on December 19, 1995, valuing the bread at full retail price.

Issue(s)

1. Whether the fair market value of Lucky Stores' charitable contributions of 4-day-old bread should be determined at full retail price or at a discounted price?

Holding

1. Yes, because Lucky Stores demonstrated that it could and did sell 4-day-old bread at full retail price on Sundays and occasionally on other days, thus supporting the valuation of the donations at full retail price.

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Court’s Reasoning

The court applied section 170(e)(3) of the Internal Revenue Code, which allows for deductions of charitable contributions of inventory at fair market value, subject to certain limitations. The court focused on section 1. 170A-1(c)(2) and (3) of the Income Tax Regulations, which define fair market value as the price at which the property would change hands between a willing buyer and seller in the usual market. Lucky Stores argued that it could sell the donated bread at full retail price, while the Commissioner contended that the bread could only be sold at a 50% discount. The court found that Lucky Stores regularly sold 4-day-old bread at full retail price on Sundays, indicating that the bread could have been sold at that price at the time of contribution. The court also considered Congressional intent to encourage donations to the needy and noted that Lucky Stores’ donations did not result in a better tax position than if the bread had been sold. The court rejected the Commissioner’s reliance on industry practices of selling aged bread at a discount, as Lucky Stores demonstrated that it could sell its 4-day-old bread at full price. The court did not rely on an expert report due to its statistical methodology but based its decision on the evidence presented regarding Sunday sales.

Practical Implications

This decision impacts how similar cases should be analyzed by emphasizing that the fair market value of perishable inventory donations can be determined at full retail price if the donor can show that the inventory could have been sold at that price at the time of contribution. It changes legal practice by requiring taxpayers to provide evidence of actual sales at full price to support their valuation claims. For businesses, this ruling encourages donations of perishable goods by allowing higher deductions, potentially increasing the supply of such goods to charitable organizations. The decision may influence later cases involving the valuation of charitable contributions, particularly where the donated items are perishable and the donor can demonstrate sales at full price. It underscores the importance of aligning tax deductions with Congressional intent to support charitable activities without providing unintended tax benefits.

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