John C. and Tate M. Todd v. Commissioner of Internal Revenue, 118 T. C. 334 (U. S. Tax Court 2002)

In *Todd v. Comm'r*, the U. S. Tax Court ruled that the petitioners were not entitled to claim charitable deductions exceeding their cost basis for donated stock, as the stock did not meet the criteria for 'qualified appreciated stock' and failed to comply with substantiation requirements. This decision underscores the importance of adhering to specific legal standards for tax deductions on charitable contributions, impacting how taxpayers must substantiate such claims.

Parties

John C. Todd and Tate M. Todd, the petitioners, sought to challenge the determination of deficiencies in their federal income tax liabilities by the Commissioner of Internal Revenue, the respondent, before the United States Tax Court.

Facts

John C. Todd transferred 6,350 shares of stock in Union Colony Bancorp (Bancorp) to the Todd Family Foundation, a private foundation they formed, on December 27, 1994. The petitioners claimed charitable contribution deductions on their tax returns for the years 1994 through 1997, asserting a total value of $553,847 for the stock based on its subsequent sale. The Commissioner disallowed these deductions, allowing only $33,338, which was the petitioners' cost basis in the shares. The shares of Bancorp were not listed on major stock exchanges and were not regularly traded in a national or regional over-the-counter market with published quotations. Instead, the shares were occasionally traded through a local broker, Gill & Associates, who used the bank's net asset value to suggest a share price.

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency on August 13, 1999, disallowing the petitioners' claimed charitable deductions for the tax years 1994 through 1997. The petitioners filed a petition with the U. S. Tax Court contesting the disallowance. The Tax Court reviewed the case under the de novo standard of review, which allows the court to independently evaluate the evidence and make its own findings of fact and conclusions of law.

Issue(s)

Whether the petitioners' contribution of Bancorp shares to the Todd Family Foundation qualified as a charitable deduction under Section 170 of the Internal Revenue Code, specifically considering whether the shares were 'qualified appreciated stock' under Section 170(e)(5)(B) and whether the petitioners met the substantiation requirements under Section 1. 170A-13 of the Income Tax Regulations?

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Rule(s) of Law

Section 170(a)(1) of the Internal Revenue Code allows a deduction for charitable contributions, which must be verified under regulations prescribed by the Secretary. Section 170(e)(5)(B) defines 'qualified appreciated stock' as stock for which market quotations are readily available on an established securities market. Section 1. 170A-13(c)(1)(i) of the Income Tax Regulations mandates that no deduction shall be allowed for contributions of property exceeding $5,000 unless certain substantiation requirements are met, including obtaining a qualified appraisal and attaching a completed appraisal summary to the tax return.

Holding

The U. S. Tax Court held that the petitioners were not entitled to the disallowed charitable deductions because the Bancorp shares were not 'qualified appreciated stock' and the petitioners failed to meet the required substantiation requirements. The court limited the deduction to the petitioners' cost basis of $33,338 for the year 1994.

Reasoning

The court's reasoning was based on the interpretation of the term 'market quotations readily available on an established securities market' as used in the applicable statutes and regulations. The court found that the Bancorp shares did not meet this criterion, as they were not listed on any major stock exchange nor regularly traded in an over-the-counter market with published quotations. The court rejected the petitioners' argument that the occasional trading facilitated by Gill & Associates, which relied on the bank's net asset value for pricing, constituted readily available market quotations. The court emphasized that the legislative purpose behind the relevant provisions was to combat overvaluation of charitable contributions, and accepting the petitioners' method of valuation would not serve this purpose. Furthermore, the court determined that the petitioners failed to comply with the substantiation requirements under Section 1. 170A-13(c) of the Income Tax Regulations, as they did not obtain a qualified appraisal, attach a completed appraisal summary, or maintain the necessary records. The court also noted the rebuttable presumption of formal consistency in interpreting the same language across different sections of the law, concluding that the market quotations requirement had the same meaning for both determining qualified appreciated stock and exemption from substantiation requirements.

Disposition

The court entered a decision for the Commissioner of Internal Revenue, upholding the disallowance of the petitioners' charitable deductions, except for the $33,338 allowed for the year 1994.

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Significance/Impact

The *Todd v. Comm'r* decision reinforces the strict application of the Internal Revenue Code's rules on charitable contribution deductions, particularly concerning the substantiation of non-cash contributions and the definition of 'qualified appreciated stock. ' It serves as a reminder to taxpayers of the necessity to comply with detailed substantiation requirements to claim deductions for contributions of property. The ruling has implications for how taxpayers and tax practitioners approach the valuation and documentation of charitable contributions, emphasizing the need for clear evidence of market quotations on established securities markets to qualify for enhanced deductions. Subsequent cases and tax practice have had to consider this decision when dealing with similar issues, potentially leading to more cautious approaches in claiming deductions for charitable contributions of stock.

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