Sklar v. Commissioner, 125 T. C. 281 (2005)

In *Sklar v. Commissioner*, the U. S. Tax Court ruled that taxpayers could not deduct tuition and fees paid to Orthodox Jewish day schools as charitable contributions, despite the schools providing both religious and secular education. The decision upheld the longstanding principle that tuition payments, regardless of their allocation between religious and secular education, do not qualify as deductible charitable contributions under Section 170 of the Internal Revenue Code. This ruling reaffirmed the legal requirement for a charitable intent and the absence of substantial benefit to the donor, impacting how religious education costs are treated for tax purposes.

Parties

Michael and Marla Sklar (Petitioners) v. Commissioner of Internal Revenue (Respondent). The Sklars were the taxpayers seeking to deduct tuition payments, while the Commissioner represented the government's position in denying those deductions.

Facts

Michael and Marla Sklar, Orthodox Jews, paid $27,283 in tuition and fees in 1995 to Emek Hebrew Academy and Yeshiva Rav Isacsohn Torath Emeth Academy for the education of their five children. These schools provided both secular and religious education, with the Sklars attributing 55% of the payments to religious education. The Sklars sought to deduct $15,000 of these payments as charitable contributions under Section 170 of the Internal Revenue Code. The Commissioner challenged this deduction and assessed an accuracy-related penalty, which was later conceded.

Procedural History

The Sklars filed a petition with the U. S. Tax Court challenging the Commissioner's disallowance of their charitable contribution deduction for the 1995 tax year. Prior to this, the Sklars had successfully claimed similar deductions for the years 1991-1993, but their claim for 1994 was disallowed in *Sklar v. Commissioner, T. C. Memo 2000-118*, a decision affirmed by the Ninth Circuit Court of Appeals in *Sklar v. Commissioner, 282 F. 3d 610 (9th Cir. 2002)*. The Tax Court's standard of review was de novo for legal questions and clearly erroneous for findings of fact.

Issue(s)

Whether the Sklars may deduct as charitable contributions under Section 170 of the Internal Revenue Code the portion of tuition payments made to Orthodox Jewish day schools attributable to religious education?

Rule(s) of Law

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A charitable contribution under Section 170 must be a gift, made without adequate consideration and with detached and disinterested generosity. The Supreme Court in *United States v. American Bar Endowment, 477 U. S. 105 (1986)*, established that a payment is deductible as a charitable contribution only to the extent it exceeds the market value of the benefit received, and the excess payment must be made with the intention of making a gift. Furthermore, Section 170(f)(8) and Section 6115, enacted in 1993, impose substantiation and disclosure requirements for charitable contributions but do not change the substantive law on what qualifies as a deductible charitable contribution.

Holding

The Tax Court held that the Sklars could not deduct any portion of their tuition payments as charitable contributions under Section 170. The court found that the payments were not made with the requisite charitable intent, as they were made in exchange for a substantial benefit—the education of their children. Additionally, the court determined that Sections 170(f)(8) and 6115 did not alter the substantive law on charitable contribution deductions for tuition payments.

Reasoning

The court's reasoning was grounded in the principle established in *United States v. American Bar Endowment* that a payment is deductible only if it exceeds the market value of the benefit received and is made with the intention of making a gift. The Sklars did not demonstrate that their tuition payments exceeded the value of the secular education received by their children, nor did they show a charitable intent in making these payments. The court also considered the long-standing precedent that tuition payments for schools providing both religious and secular education do not qualify as charitable contributions. The court rejected the Sklars' argument that Sections 170(f)(8) and 6115 allowed for deductions of tuition payments related to religious education, finding that these sections did not change the substantive law on what qualifies as a charitable contribution. The court also noted that Emek and Yeshiva Rav Isacsohn were not organized exclusively for religious purposes, thus not qualifying for the intangible religious benefit exception under these sections. The court's analysis included a review of the legislative history of Sections 170(f)(8) and 6115, which confirmed that these sections were intended to address administrative issues related to substantiation and disclosure, not to expand the scope of deductible contributions.

Disposition

The Tax Court affirmed the Commissioner's disallowance of the Sklars' charitable contribution deduction for tuition payments and entered a decision under Rule 155 of the Tax Court Rules of Practice and Procedure.

Significance/Impact

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The *Sklar* decision reinforced the principle that tuition payments to schools providing both secular and religious education are not deductible as charitable contributions under Section 170. It clarified that the 1993 amendments to the Internal Revenue Code did not change the substantive law on charitable contributions. This ruling has implications for taxpayers seeking to deduct religious education expenses and for religious schools in how they structure tuition and fees. It also underscores the importance of charitable intent and the absence of substantial benefit in determining the deductibility of payments to charitable organizations.

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