Jones v. Commissioner, 129 T. C. 146 (U. S. Tax Court 2007)

In *Jones v. Commissioner*, the U. S. Tax Court ruled that an attorney cannot claim a charitable contribution deduction for donating a client's case file materials to a university, as the attorney did not own the files. Leslie Stephen Jones, who represented Timothy McVeigh, sought to deduct the value of donated copies of case materials. The court held that under Oklahoma law, attorneys maintain only custodial possession of client files, not ownership, thus invalidating the donation for tax purposes. This decision clarifies the legal ownership of case files and impacts how attorneys can claim deductions for donations related to their professional work.

Parties

Sherrel and Leslie Stephen Jones, the petitioners, were residents of Oklahoma during the years in issue and at the time of filing the petition. The respondent was the Commissioner of Internal Revenue. Leslie Stephen Jones was the lead counsel for Timothy McVeigh's defense in the Oklahoma City bombing case until his withdrawal in August 1997.

Facts

Leslie Stephen Jones, an attorney, was appointed by the United States District Court as lead counsel for Timothy McVeigh's defense in the Oklahoma City bombing case from May 1995 until his withdrawal in August 1997. During this period, Jones received photocopies of documents and other materials from the U. S. Government for use in McVeigh's defense. These materials included FBI reports, documentary evidence, photographs, audio and video cassettes, computer disks, and McVeigh's correspondence. Jones always notified McVeigh of the materials and delivered them to him upon request. On August 27, 1997, the same day he withdrew from representation, Jones proposed donating these materials to the University of Texas at Austin. On December 24, 1997, Jones executed a "Deed of Gift and Agreement" to transfer the materials to the university's Center for American History. The materials were appraised at $294,877 by John R. Payne, and Jones claimed a charitable contribution deduction for this amount on his 1997 federal income tax return.

Procedural History

The Commissioner of Internal Revenue disallowed the charitable contribution deduction claimed by Jones for the donation of the case materials. Jones and his wife, Sherrel Jones, filed a petition in the U. S. Tax Court to challenge the disallowance. The Tax Court's decision was based on the legal ownership of the materials under Oklahoma law and the applicability of section 170 of the Internal Revenue Code.

Issue(s)

Whether an attorney can claim a charitable contribution deduction under section

170 of the Internal Revenue Code for donating materials received from the government during the representation of a client, when the attorney does not own the materials under applicable state law?

Rule(s) of Law

Under section 170 of the Internal Revenue Code, a taxpayer must own the property donated to a qualifying charitable organization to be eligible for a charitable contribution deduction. State law determines the nature of the taxpayer's legal interest in the property. In Oklahoma, an attorney does not own a client's case file but maintains custodial possession. A valid gift under state law requires the donor to possess donative intent, effect actual delivery, and strip himself of all ownership and dominion over the property. "A 'gift' has been generally defined as a voluntary transfer of property *by the owner* to another without consideration therefore. " *Pettit v. Commissioner*, 61 T. C. 634, 639 (1974).

Holding

The U. S. Tax Court held that Leslie Stephen Jones was not entitled to a charitable contribution deduction for the donation of the case materials because he did not own the materials under Oklahoma law. As an attorney, Jones maintained only custodial possession of the materials, which belonged to his client, Timothy McVeigh. Therefore, Jones was incapable of effecting a valid gift under Oklahoma law, and section 170 of the Internal Revenue Code precluded the deduction.

Reasoning

The court's reasoning was based on several key points:

First, the court analyzed the ownership of client files under Oklahoma law. It noted that no Oklahoma case directly addressed the ownership of materials in an attorney's possession related to client representation. However, general principles of agency law and ethical rules governing attorneys indicated that an attorney-client relationship is fundamentally one of agency. As an agent, Jones received the materials for McVeigh's benefit, and thus, the materials belonged to McVeigh, not Jones.

Second, the court reviewed cases from other jurisdictions on the ownership of client files. While some jurisdictions recognized an attorney's property rights in self-created work product, the majority held that clients own their entire case files, including the attorney's work product. The court found that the materials in question were not Jones's work product but copies of documents and other items received from the government, thus falling outside any potential work product exception.

Third, the court considered the Oklahoma Rules of Professional Conduct, which implied that clients have ownership rights in their case files. These rules emphasize the attorney’s fiduciary duty to safeguard client property and maintain confidentiality, supporting the conclusion that Jones did not own the materials.

Fourth, the court addressed Jones’s argument that attorneys are entitled to retain copies of client files. It rejected the notion that this right extended to publicizing, selling, or donating the files for personal gain. Furthermore, the court found the appraisal of the materials to be flawed, as it did not account for the existence of multiple copies and treated the materials as if they were originals.

Finally, the court noted that even if the materials were considered Jones’s work product, the charitable contribution deduction would be limited to Jones’s basis in the materials under section 170(e)(1)(A) of the Internal Revenue Code. Since Jones presented no evidence of a basis greater than zero, the deduction would still be zero.

Disposition

The U. S. Tax Court entered a decision for the respondent, the Commissioner of Internal Revenue, denying the charitable contribution deduction claimed by Sherrel and Leslie Stephen Jones.

Significance/Impact

The *Jones v. Commissioner* decision has significant implications for the legal profession and tax law. It clarifies that attorneys do not own client case files under Oklahoma law, and thus, cannot claim charitable contribution deductions for donating such materials. This ruling may influence how attorneys in other jurisdictions approach the ownership of client files and the potential tax benefits of donating them. The decision underscores the importance of state law in determining property rights for federal tax purposes and highlights the fiduciary nature of the attorney-client relationship. It also serves as a reminder of the limitations on charitable contribution deductions under section 170 of the Internal Revenue Code, particularly regarding the ownership and valuation of donated property.

