Bergquist v. Commissioner, 131 T. C. 8 (2008)

In Bergquist v. Commissioner, the U. S. Tax Court ruled on the fair market value of stock donated to a tax-exempt medical group, impacting charitable contribution deductions. The court determined that the stock should not be valued as a going concern due to an imminent consolidation, leading to a lower valuation and disallowing the taxpayers' claimed deductions. This decision underscores the importance of accurate valuation and good faith in claiming charitable deductions.

Parties

Bradley J. Bergquist and Angela Kendrick, et al. , were the petitioners in this case, while the Commissioner of Internal Revenue was the respondent. The case involved multiple petitioners, including Robert E. and Patricia F. Shangraw, Stephen T. and Leslie Robinson, William W. Manlove, III, and Lynn A. Fenton, John L. and Catherine J. Gunn, and Harry G. G. and Sonia L. Kingston, all of whom were consolidated for trial and decision.

Facts

The petitioners were medical doctors and a certified public accountant who were stockholders and employees of University Anesthesiologists, P. C. (UA), a medical professional service corporation. UA provided anesthesiology services to Oregon Health & Science University Hospital (OHSU) and its clinics. In anticipation of a planned consolidation into the OHSU Medical Group (OHSUMG), a tax-exempt professional service corporation, the petitioners donated their UA stock to OHSUMG in 2001. They claimed substantial charitable contribution deductions based on a valuation of $401. 79 per share. The Commissioner disallowed these deductions, asserting that the stock had no value on the date of donation due to the impending consolidation. After an expert appraisal, the Commissioner conceded that the stock had a value of $37 per voting share and $35 per nonvoting share.

Procedural History

The petitioners filed petitions with the U. S. Tax Court to contest the Commissioner's disallowance of their charitable contribution deductions. The cases were consolidated for trial, briefing, and opinion. The parties stipulated that the decisions in these consolidated cases would bind 20 related but nonconsolidated cases pending before the Court. The Tax Court heard the case and issued its opinion on July 22, 2008.

Issue(s)

Whether the fair market value of the donated UA stock should be determined as that of a going concern or as an assemblage of assets, given the planned consolidation of UA into OHSUMG?

Whether the petitioners are entitled to charitable contribution deductions based on the fair market value of the donated UA stock?

Whether the petitioners are liable for accuracy-related penalties under sections 6662(h) and 6662(b)(1) of the Internal Revenue Code?

Rule(s) of Law

The fair market value of property for charitable contribution deductions is defined as the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts. See Sec. 1. 170A-1(c)(2), Income Tax Regs. .

Property is valued as of the valuation date based on market conditions and facts available on that date without regard to hindsight. See Estate of Gilford v. Commissioner, 88 T. C. 38, 52 (1987).

A taxpayer may be liable for a 40-percent accuracy-related penalty on the portion of an underpayment of tax attributable to a gross valuation misstatement if the value of property claimed on a tax return is 400 percent or more of the correct value. See Section 6662(h)(2)(A).

Holding

The Tax Court held that the UA stock should not be valued as a going concern but rather as an assemblage of assets due to the high likelihood of the planned consolidation into OHSUMG. The fair market value of the donated UA stock was determined to be $37 per voting share and $35 per nonvoting share. Consequently, the petitioners were entitled to charitable contribution deductions only to the extent of these values.

The court further held that the petitioners were liable for the 40-percent accuracy-related penalty under section 6662(h) if their underpayments exceeded $5,000, and otherwise liable for the 20-percent penalty under section 6662(b)(1) for negligence.

Reasoning

The court rejected the petitioners' valuation of UA as a going concern, finding that the scheduled consolidation was highly likely and well-known to all involved parties. The court reasoned that a willing buyer and seller would have been aware of the consolidation and would not have valued UA as a going concern. The court relied on the Commissioner's expert's asset-based valuation approach, which considered UA's equity after applying discounts for lack of control and marketability.

The court found that the petitioners did not act in good faith in claiming their charitable contribution deductions. The petitioners' reliance on the Houlihan appraisal and advice from UA's attorney and accountant was deemed unreasonable, especially given the significant discrepancy between the claimed and determined values and the petitioners' awareness of OHSUMG's decision to book the donated stock at zero value.

The court applied the gross valuation misstatement penalty under section 6662(h) due to the petitioners' claimed values exceeding 400 percent of the correct values. The negligence penalty under section 6662(b)(1) was applied for underpayments not exceeding $5,000, as the petitioners failed to make a reasonable attempt to ascertain the correctness of their deductions.

Disposition

The court entered decisions under Rule 155, determining the petitioners' charitable contribution deductions based on the fair market value of $37 per voting share and $35 per nonvoting share of UA stock and their liability for accuracy-related penalties.

Significance/Impact

The Bergquist decision underscores the importance of accurate valuation and good faith in claiming charitable contribution deductions. It emphasizes that property valuation must consider market conditions and relevant facts at the time of donation, including the likelihood of future events such as consolidations. The case also highlights the potential for severe penalties when taxpayers claim deductions based on inflated valuations without reasonable cause or good faith investigation. Subsequent courts have cited Bergquist in addressing similar issues of charitable contribution deductions and valuation of donated stock, reinforcing its doctrinal significance in tax law.