15 W. 17th St. LLC v. Comm'r, 147 T. C. 19 (2016)

In a significant ruling on charitable contribution substantiation, the U. S. Tax Court held that the absence of IRS regulations precludes the use of a donee's amended tax return to substantiate a charitable donation. The court ruled that without specific IRS regulations, a contemporaneous written acknowledgment from the donee remains mandatory for deductions over $250, impacting how taxpayers substantiate charitable contributions and affirming the IRS's discretion in implementing donee reporting systems.

Parties

15 West 17th Street LLC, with Isaac Mishan as the Tax Matters Partner, was the Petitioner, challenging the IRS's disallowance of a charitable contribution deduction. The Commissioner of Internal Revenue was the Respondent, defending the disallowance and the procedural requirement for substantiation.

Facts

15 West 17th Street LLC (LLC) purchased a property in Manhattan in 2005 and later donated a conservation easement over part of it to the Trust for Architectural Easements (Trust) in 2007. The LLC claimed a $64,490,000 charitable contribution deduction on its 2007 tax return. The Trust initially failed to acknowledge the donation adequately on its 2007 Form 990 but later filed an amended return in 2014 that included the required information. The IRS disallowed the deduction due to the absence of a contemporaneous written acknowledgment (CWA) from the Trust.

Procedural History

The IRS audited the LLC's 2007 return and issued a notice of final partnership administrative adjustment (FPAA) in 2011, disallowing the charitable contribution deduction. The LLC petitioned the Tax Court for review, and after the case was docketed, the Trust submitted an amended Form 990 in 2014. The LLC then moved for partial summary judgment, arguing that the amended return satisfied the substantiation requirement under section 170(f)(8)(D). The Tax Court denied the motion, holding that section 170(f)(8)(D) was not self-executing without IRS regulations.

Issue(s)

Whether the filing of an amended Form 990 by the donee organization, which included the information required by section 170(f)(8)(B), can serve as an alternative to the contemporaneous written acknowledgment required by section 170(f)(8)(A) for substantiating a charitable contribution deduction in the absence of IRS regulations implementing section 170(f)(8)(D)?

Rule(s) of Law

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Section 170(f)(8)(A) of the Internal Revenue Code requires a contemporaneous written acknowledgment (CWA) for any charitable contribution deduction of $250 or more. Section 170(f)(8)(D) provides that this requirement does not apply if the donee organization files a return that includes the required information "on such form and in accordance with such regulations as the Secretary may prescribe. "

Holding

The Tax Court held that section 170(f)(8)(D) is not self-executing and that the absence of IRS regulations implementing this section means that the CWA requirement of section 170(f)(8)(A) remains fully applicable. The Trust's filing of an amended Form 990 in 2014 did not satisfy the substantiation requirement for the LLC's 2007 donation.

Reasoning

The court's reasoning was based on the statutory text and legislative history of section 170(f)(8). The court emphasized that the phrase "on such form and in accordance with such regulations as the Secretary may prescribe" in section 170(f)(8)(D) indicates that Congress delegated discretionary rulemaking authority to the IRS. Since the IRS had not issued regulations under this section, the court concluded that section 170(f)(8)(D) could not be applied without such regulations. The court also considered the policy concerns, such as donor privacy and the risk of identity theft, which had influenced the IRS's decision not to implement donee reporting. The court rejected the LLC's argument that existing regulations governing the filing of Form 990 were sufficient to satisfy section 170(f)(8)(D), as these regulations did not address the specific requirements of that section.

Disposition

The Tax Court denied the LLC's motion for partial summary judgment, holding that the CWA requirement under section 170(f)(8)(A) remained applicable to the LLC's 2007 charitable contribution.

Significance/Impact

This decision reaffirms the importance of the CWA requirement for substantiating charitable contributions and clarifies that section 170(f)(8)(D) does not provide an alternative substantiation method without IRS regulations. It underscores the IRS's discretionary authority in implementing tax laws and highlights the potential complexities and policy considerations involved in creating a donee reporting system. The ruling may influence future legislative and regulatory efforts to streamline charitable contribution substantiation while balancing donor privacy and tax compliance.

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