Izen v. Comm'r, 148 T. C. No. 5 (2017)

In Izen v. Comm'r, the U. S. Tax Court ruled that Joe Alfred Izen, Jr. was not entitled to a $338,080 charitable contribution deduction for donating a 50% interest in a 40-year-old aircraft to a museum. The court held that Izen failed to comply with the strict substantiation requirements of I. R. C. § 170(f)(12), which mandates a contemporaneous written acknowledgment (CWA) from the donee for contributions of used vehicles valued over $500. This decision underscores the importance of adhering to detailed substantiation rules to claim charitable deductions, impacting how taxpayers must document such contributions.

Parties

Joe Alfred Izen, Jr. (Petitioner) filed a petition against the Commissioner of Internal Revenue (Respondent) in the United States Tax Court. Izen sought a charitable contribution deduction for the tax year 2010, which was challenged by the Commissioner through cross-motions for partial summary judgment.

Facts

In December 2007, Joe Alfred Izen, Jr. , and On Point Investments, LLP, purchased a 1969 model Hawker-Siddley DH125-400A private jet for $42,000, with each paying $21,000 for a 50% undivided interest. The aircraft was stored at an airfield in Montgomery County, Texas, for three years. On December 31, 2010, Izen and On Point allegedly donated their respective 50% interests to the Houston Aeronautical Heritage Society, a tax-exempt organization under I. R. C. § 501(c)(3), operating a museum at the William P. Hobby Airport. Izen claimed a charitable contribution deduction of $338,080 on his amended 2010 tax return filed on April 14, 2016, based on an appraisal dated April 7, 2011, which valued his interest at that amount as of December 30, 2010.

Procedural History

Izen timely filed his 2010 tax return on October 17, 2011, claiming the standard deduction and no charitable contribution. The IRS examined Izen's 2009 and 2010 returns and issued a notice of deficiency on August 17, 2012, disallowing certain deductions. Izen petitioned the Tax Court, initially challenging the disallowance of Schedule C and Schedule E deductions. On March 28, 2014, Izen filed a motion for leave to amend his petition to include the charitable contribution deduction, which was granted on April 1, 2014. The court denied Izen's initial motion for partial summary judgment on March 9, 2016, due to disputes of material fact regarding substantiation. Subsequently, both parties filed cross-motions for partial summary judgment, with the Commissioner arguing that Izen failed to substantiate the charitable contribution under I. R. C. § 170(f)(12).

Issue(s)

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Whether Joe Alfred Izen, Jr. is entitled to a charitable contribution deduction of $338,080 for his alleged donation of a 50% interest in a 1969 model Hawker-Siddley DH125-400A private jet to the Houston Aeronautical Heritage Society in 2010, given his compliance with the substantiation requirements of I. R. C. § 170(f)(12)?

Rule(s) of Law

I. R. C. § 170(f)(12) stipulates that no deduction shall be allowed for contributions of used motor vehicles, boats, and airplanes valued over $500 unless the taxpayer substantiates the contribution by a contemporaneous written acknowledgment (CWA) from the donee organization that meets the requirements of I. R. C. § 170(f)(12)(B). The CWA must be included with the taxpayer's return claiming the deduction and must contain specific information, including the donor's name and taxpayer identification number, the vehicle identification number, a certification of the intended use or material improvement of the vehicle, and a statement about any goods or services provided in exchange for the vehicle.

Holding

The court held that Joe Alfred Izen, Jr. was not entitled to the claimed charitable contribution deduction of $338,080 because he failed to include with his amended 2010 tax return a contemporaneous written acknowledgment that complied with the requirements of I. R. C. § 170(f)(12)(B).

Reasoning

The court applied the legal test outlined in I. R. C. § 170(f)(12), which requires strict compliance with substantiation requirements for contributions of used vehicles valued over $500. The court identified several deficiencies in the documentation provided by Izen: (1) the acknowledgment letter included with the return was addressed to Philippe Tanguy, not Izen, and did not contain the required information; (2) the Aircraft Donation Agreement, while containing some required information, was not signed by Izen or On Point, failing to establish a completed gift; (3) the Agreement did not include Izen's taxpayer identification number, a statutory requirement; and (4) it lacked a detailed certification of the intended use and duration of use by the donee organization, as required by I. R. C. § 170(f)(12)(B)(iv)(I). The court rejected Izen's argument for substantial compliance, citing previous holdings that the doctrine does not apply to excuse noncompliance with the strict substantiation requirements of I. R. C. § 170(f)(8) and (12). The court also considered the legislative intent behind the statute, which aimed to address tax compliance issues related to charitable contributions of used vehicles, and concluded that the strict statutory requirements must be met to claim the deduction.

Disposition

The court granted the Commissioner's motion for partial summary judgment and

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denied Izen’s motion for partial summary judgment.

Significance/Impact

Izen v. Comm’r reinforces the stringent substantiation requirements for charitable contributions of used vehicles under I. R. C. § 170(f)(12). The decision highlights the necessity for taxpayers to strictly adhere to the statutory requirements, including providing a contemporaneous written acknowledgment that meets all specified criteria. This case serves as a reminder to taxpayers and tax professionals of the importance of detailed documentation and the potential consequences of failing to comply with these requirements. Subsequent courts have consistently upheld the strict application of these rules, impacting the practice of claiming charitable deductions for used vehicles and emphasizing the need for meticulous record-keeping and adherence to IRS guidelines.

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