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MARTIN V. COMMISSIONER: DOTTED T'S AND CROSSED I'S INSUFFICIENT TO SUPPORT CHARITABLE DEDUCTION

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In two Memorandum Opinions, the U.S. Tax Court (the “Tax Court”) disallowed large deductions for donated property due to apparent shortfalls in documentation rather than a dispute regarding the amount of value transferred. In what appears to be a victory of form over substance, this case turned on whether specific documentation procedures were adequately followed.

Introduction

Charitable deductions have attracted increasing scrutiny from the Internal Revenue Service (“IRS”). This scrutiny has taken (at least) three forms. The most apparent form to valuation professionals is the qualified appraiser and qualified appraisal regulations that apply to deductions in excess of \$5,000. The second form is increased scrutiny of whether the recipient of the contribution is a qualified organization under the regulations. Finally, a third form of increased scrutiny is a narrow focus on the documentation of the contribution, including the form of the contemporaneous written acknowledgment (“CWA”) from the donee required of all contributions of \$250 or more.

The recent memorandum opinions in *Martin v. Commissioner*¹ illustrate the importance of the third category. In those cases, the Tax Court considered whether the taxpayers were entitled to charitable

contribution deductions arising from the 2018 donation of an interest in real estate.

The Real Estate Contribution

In 2014, Clint Martin purchased 13.33 acres of real property in Highland City, Utah, for \$22,000, using funds from a limited liability company whose members were Clint Martin and his cousin, Stephen Martin. In 2016, Clint Martin executed a warranty deed, transferring the property to himself and Stephen Martin, resulting in each cousin owning a 50 percent interest in the property.

In 2018, the Martin cousins decided to donate the property to Highland City for use as a conservation contribution, with the stated intent that the city maintain the property as preserved open space. Highland City, for its part, accepted the donation, with the city council stating, “[t]here will be no expenditure to Highland City to accept the donation.”² The donation was addressed



in a letter signed by the cousins and the mayor of Highland City, which described a “donation of land.”³ The letter stated that the donors would pay property taxes on the land through the end of 2018 and provided that all costs associated with the donation would be paid by the donors.

After the signing of the letter, the cousins conveyed the property to Highland City by a warranty deed that, as warranty deeds tend to do, specified the property was exchanged for “\$10 and other good and valuable consideration.”⁴ After the transfer of the property, the cousins engaged a real estate appraiser, who opined that the property had a fair market value of \$665,000. Each of the Martin cousins claimed a deduction of \$332,500, representing one-half of the appraised fair market value of the property, on his 2018 federal income tax return and attached the real estate appraisal to his tax forms. The taxpayers, the real estate appraiser, and an official of Highland City signed the Form 8283 related to the contribution.

THE IRS SOUGHT SUMMARY JUDGMENT, ASKING THE TAX COURT TO RULE THAT THE TAXPAYERS WERE NOT ENTITLED TO THE DEDUCTIONS ON THREE GROUNDS.

The IRS Challenge

The IRS took the position that neither Martin was entitled to a charitable contribution deduction because



no CWA was provided for the gift. In the case of Clint Martin, the IRS also sought an accuracy-related penalty.

The Martins disagreed with the IRS position. Because there is no particular form for a CWA and a CWA can be composed of multiple documents, the Martins argued that the collective statements of Highland City, along with the warranty deed for the property, constituted a description of the property contributed and a statement (in the form of the abovementioned “no expenditure” language of the city council) that Highland City provided no goods or services in consideration for the property, thus satisfying the requirements for a CWA.

The IRS sought summary judgment, asking the Tax Court to rule that the taxpayers were not entitled to the deductions on three grounds. First, the IRS argued that the taxpayers failed to obtain a CWA. Second, the IRS argued that the taxpayers failed to obtain a qualified appraisal. Third, the IRS argued that the taxpayers failed to attach a complete and correct appraisal summary to their 2018 federal income tax returns.

The Tax Court’s Analysis

The Tax Court discussed only the first of the three IRS arguments. Because the failure to obtain and submit a valid CWA was sufficient to disallow the deductions, the qualified appraisal or appraisal summary issues faded to irrelevance.



The Tax Court analysis did not turn on whether the Martins actually donated the property or whether the claimed value was reasonable. Instead, the case turned on whether the Martins provided satisfactory documentation.

The Tax Court sided with the IRS. The memorandum opinions are brief, citing *Izen v. Commissioner* to describe the requirements of a CWA as “strict” and that, therefore, “the doctrine of substantial compliance does not apply to excuse the failure to obtain a CWA meeting the statutory requirements.”⁵

The Tax Court rejected the taxpayers’ argument that the city council’s “no expenditure” letter was effectively a statement by the donee that no consideration was paid. The Tax Court reasoned that because this statement was made prior to the transfer of the property, it could not serve as an acknowledgement of the contribution. Further, the Tax Court cited the “other good and valuable consideration” language of the warranty deed. In the Tax Court’s view, that language made it unclear whether Highland City provided consideration for the contribution and, if so, whether the value of the consideration exchanged was possible to estimate.

QUALIFIED APPRAISAL REQUIREMENTS ARE SPECIFIC, AND THEY INCLUDE DISCLOSURES BEYOND THOSE THAT HAVE HISTORICALLY APPEARED IN THE TYPICAL APPRAISAL.

Practical Implications for Appraisers

I spoke with the attorney for Stephen and Amanda



Martin, and he was hopeful these memorandum opinions would be reconsidered. In the meantime, appraisers, tax preparers, and tax lawyers should take note.

The basis for disallowance was not that the property was not donated or that the claimed value was unreasonable. The disallowance of a total of \$665,000 in deductions across two returns was based on an alleged failure by the taxpayers to follow a technical requirement of the Tax Code that is referenced but not explained in detail in the instructions to Form 8283. This implies that the IRS looks at charitable deductions more closely than many practitioners might have previously appreciated.

As valuation professionals, we typically are not involved in preparing the CWA or confirming that taxpayers correctly document their returns. However, if the IRS successfully challenges charitable contribution deductions based on the form of the documents, rather than the fact that property was donated or the value of the donated property was incorrectly estimated, valuation professionals can expect similar scrutiny of appraisals. Qualified appraisal requirements are specific, and they include disclosures beyond those that have historically appeared in the typical appraisal. Violations can include penalties for valuation professionals.

Qualified Appraisal Considerations

Although the Tax Court was not compelled in this case



to discuss the qualified appraisal issue in the motion for summary judgment, that part of the IRS's motion should still be of interest to valuation professionals. The real estate appraiser involved is a Certified General Appraiser licensed in Utah. I have not reviewed his report for *Uniform Standards of Professional Appraisal Practice* compliance and am not otherwise familiar with the contents of this particular appraisal report.

However, if the IRS claims the report is not a qualified appraisal, then, presumably, the IRS was planning to argue that some element of the report did not meet the criteria under the qualified appraisal rules. Many of those criteria involve specific disclosures or documentation rules that have little or no effect on the valuation conclusion itself.

Notably, the memorandum opinions in *Martin* do not indicate that the IRS took issue with the conclusion of the appraisal report. Rather, the issue identified in the IRS motion was whether the report satisfied the requirements for a qualified appraisal. That distinction matters because although a valuation conclusion might be supportable, the deduction still might be disallowed if the appraisal report does not satisfy the applicable substantiation requirements.

Conclusion

In short, the takeaway from these cases is that the IRS appears to be interpreting the requirements of the Tax

Code and the related regulations quite narrowly, and it no longer may suffice to merely have the correct answer underlined twice at the conclusion of an appraisal report. I previously summarized the characteristics of a qualified appraisal, so I will not list them again here. (See the [July 2024 issue of Perspectives concerning Estate of Hoensheid v. Commissioner.](#))

ALTHOUGH A VALUATION CONCLUSION MIGHT BE SUPPORTABLE, THE DEDUCTION STILL MIGHT BE DISALLOWED IF THE APPRAISAL REPORT DOES NOT SATISFY THE APPLICABLE SUBSTANTIATION REQUIREMENTS.

As more cases come out that involve charitable contribution deductions and technical explanations for disallowing them, valuation professionals may focus not only on the reasonableness of the value conclusion but also on the technical requirements that support a taxpayer's claimed deduction.

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References:

- 1 Two cases were styled *Martin v. Commissioner*, with Stephen and Amanda Martin as petitioners in one and Clint and Jenifer Martin as petitioners in the other.
- 2 *Martin v. Commissioner*, T.C. Memo 2026-39 (May 14, 2026), 2. The two opinions, while not identical, are similar, but the quoted language does not appear in T.C. Memo 2026-40. It appears the Tax Court considered this statement of the city council only in the Stephen Martin opinion.
- 3 *Martin v. Commissioner*, T.C. Memo 2026-39, 2; and *Martin v. Commissioner*, T.C. Memo 2026-40, p. 2.
- 4 *Martin v. Commissioner*, T.C. Memo 2026-39, 2. In T.C. Memo 2026-40, the quoted text appears on page 3.
- 5 *Ibid.*, 4. This quote appears on page 4 of both opinions.