

Donations Collected to Help Community are Taxable

Cross References

- *Algarawi*, T.C. Memo. 2026-8

The taxpayer was the president of a refugee community center, the Arizona Allnation Refugee Resource Center (Allnation). He also prepared tax returns through his sole proprietorship. He prepared 1,294 returns in 2020 and 1,953 returns in 2021.

While the taxpayer charged some clients for tax preparation services, he did not charge others, namely refugees from Central Asia and the Middle East. The taxpayer encouraged clients to donate to Allnation using a donation box outside his tax office. The taxpayer did not keep records of the cash deposits, nor did he give the donors receipts. The taxpayer deposited the cash into his personal bank account. He did not maintain a separate bank account for these donations.

The taxpayer also received donations through a Facebook group focused on helping the refugee community. Members of the group solicited donations through posts for particular families in need. The posts directed donors to the taxpayer, who received the funds through his Zelle account connected to his cell phone number. The taxpayer did not keep records of the donors or the amounts of their contributions, nor did he maintain any records of recipients of donations or the amounts that they received.

The taxpayer used the contributed funds directly to pay the expenses, such as rent and utilities, of families in need. The IRS did not allege that the taxpayer kept any of the donated funds for his own personal benefit. The IRS position was that the taxpayer did not report the donations as taxable income on Schedule C, nor did he maintain records of the donations or the expenses made to help families in need.

The court stated IRC section 6001 requires that each person maintain books and records sufficient to show whether or not such person is liable for tax. The taxpayer did not maintain books and records as required. And the IRS, through the bank deposits method, determined that the taxpayer received unreported income.

The taxpayer argued this unreported income represents donations that were used to pay expenses for families in need. At trial, the taxpayer offered documentation to show that he provided free tax preparation services to the community, received money from community members, and gave money to other community members in need. The IRS objected on the basis of untimely disclosure, hearsay, and relevance.

The court stated that the standing pretrial order issued to both parties states that the parties should file a stipulation of facts with the court at least 14 days before the date set for trial and that parties should exchange all other documents expected to be used at trial at least 14 days before the date set for trial.

Under the rules of the court, failure to comply with a standing pretrial order may subject a party to sanctions, which could result in the exclusion of evidence that was not exchanged in accordance with that requirement. Because the taxpayer produced this evidence late, the court was not obligated to accept it as evidence. But even if the court allowed it as evidence, there was a problem.

The taxpayer argued in effect that the deposits into his accounts constituted charitable contributions from some individuals that he passed along to other individuals. Under this theory, because he was not the ultimate recipient of the deposits but rather a conduit between the original donor and the ultimate intended recipient, these amounts do not constitute income to him.

The court stated aside from the letters that he presented late to the court that were written years after the deposits in question, the taxpayer offered no evidence tying specific deposits to the ultimate recipients. With no evidence showing which deposits were passed along, the court cannot conclude on this record that the taxpayer did not have dominion and control over any particular deposit. Therefore, even if the court accepts the taxpayer's theory, the court is unable to exclude any particular deposit from gross income because the taxpayer has no proof to back any exclusion.

The taxpayer likewise could not claim a charitable contribution deduction for using the funds to support community members in need, even if they could establish the amounts. Funds given directly to an individual for personal benefit are deemed gifts and not deductible under IRC section 170(c) as a charitable contribution.

The court also stated it cannot conclude that the deposits at issue represented donations the taxpayer collected on behalf of Allnation. Neither the taxpayer nor Allnation provided receipts to the purported donors, and the taxpayer deposited the funds into his personal bank accounts. The taxpayer did not introduce any evidence showing corresponding transfers to Allnation, in part because Allnation did not maintain a separate bank account.

The tax court stated it does not question the taxpayer's desire to support refugees in his community, but the gaps in the taxpayer's proof, especially given the taxpayer's occupation as a paid tax return preparer, sinks his arguments. The court ruled the donations collected to help refugees in the community were taxable.