2 T.C. 676 (1943)

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A lump-sum payment for services rendered as both executor and trustee over a period exceeding five years is eligible for tax relief under Section 220 of the Revenue Act of 1939 (now Section 107 of the Internal Revenue Code), but legal expenses incurred defending against mismanagement claims are not deductible if they don't generate or conserve income.

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Summary

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The Estate of Edward W. Clark, III, sought a tax determination regarding compensation Clark received for serving as executor and trustee, and the deductibility of legal fees. Clark served as executor and trustee for over five years, receiving a single commission in 1939. The Tax Court held that Clark's compensation qualified for tax relief under Section 220 of the Revenue Act of 1939 because the services were personal, spanned more than five years, and were paid upon completion. However, legal fees paid to defend against allegations of mismanagement were deemed non-deductible because they did not generate income or conserve income-producing property.

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Facts

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Edward W. Clark, III, was named executor and residuary trustee in Frederick Winslow Taylor's will. Taylor died in 1915, and Clark qualified as executor that same year. Clark didn't file accounts with the Orphans' Court until 1939, when he filed his first and final account as executor and his first account as trustee. The court approved both accounts and awarded the residue of the estate, less costs including $17,500 in executor's commissions, to Clark as trustee. In 1939, Clark received $17,500 for his services, which under Pennsylvania law, is considered a single commission for services in both capacities. Clark also paid $1,250 to attorneys in 1939 for defending him against claims of trust mismanagement.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the petitioner's income tax for 1939, disallowing deductions for the executor/trustee fees and attorney's fees. The Estate of Clark petitioned the Tax Court for a redetermination.

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Issue(s)

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1. Whether the compensation received by Clark in 1939 for serving as executor and trustee qualifies for tax relief under Section 220 of the Revenue Act of 1939?

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2. Whether the legal expenses paid by Clark in 1939 for defending against claims of mismanagement as trustee are deductible under Section 23(a)(2) of the Internal Revenue Code, as amended by Section 121 of the Revenue Act of 1942?

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Holding

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1. Yes, because Clark's services were personal, spanned more than five years, and the compensation was paid upon completion of those services.

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2. No, because the legal expenses were not paid or incurred for the production or collection of income, nor for the management, conservation, or maintenance of property held for the production of income.

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Court's Reasoning

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Regarding the compensation, the court focused on whether Clark met the explicit

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requirements of Section 220 of the Revenue Act of 1939. The court reasoned the services were

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