Frederich v. Commissioner, 2 T.C. 936 (1943)

For federal income tax purposes, the period of estate administration terminates when the executor or administrator has performed all ordinary duties, regardless of state law or probate court orders that may prolong the estate's existence.

Summary

The Tax Court addressed whether the income from a partnership interest formerly held by a deceased individual should be taxed to the estate or to the heirs. The court held that despite ongoing probate proceedings and state court orders, the estate administration had effectively concluded for federal income tax purposes. Because all debts were paid and the remaining task was distribution to the heirs, the income was taxable to the heirs, not the estate, as the estate's continuation was primarily for business and financial reasons rather than administrative necessity.

Facts

Hetman Frederich died intestate, owning a 50% share in Frederich's Market with his brother Walter. For several years after Hetman's death, income tax returns reported 50% of the market's profits as income to Hetman's estate, based on the assumption that the estate was a partner in the business. The Commissioner determined that the estate was no longer under administration and that the heirs should report the income. The decedent's debts were paid in 1934, shortly after his death. Frederich, the brother, managed the market and the decedent's share. The heirs took no steps to formally close the estate until 1938, when Frederich applied for letters of administration. An estate tax return was filed in 1939, showing no tax liability.

Procedural History

The Commissioner of Internal Revenue assessed deficiencies against the petitioners (Hetman Frederich's heirs), arguing the estate was not in administration during the tax years in question. The Tax Court reviewed the Commissioner's determination to decide whether the income should be taxed to the estate or the heirs. The County Judge's Court in Florida determined that the estate was in the process of administration during the tax years.

Issue(s)

Whether the estate of a deceased partner was still in the "period of administration or settlement" as defined in Section 161(a)(3) of the Revenue Act of 1936 and the Internal Revenue Code during the tax years in question, such that the income from the partnership interest should be taxed to the estate rather than the heirs?

Holding

No, because the period required to perform ordinary administrative duties had concluded, and the continuation of the estate was primarily for business reasons, the income was taxable to the heirs, not the estate.

Court’s Reasoning

The court relied on the administrative interpretation of Section 161(a)(3), which states that the

