2 T.C. 1048 (1943)

A bequest to a trust is not deductible for estate tax purposes as exclusively charitable, scientific, or educational under Section 812(d) of the Internal Revenue Code if the trust's purpose includes substantial legislative advocacy, such as drafting and promoting the enactment of laws.

Summary

The Tax Court addressed whether bequests to trusts were deductible from the gross estate as exclusively charitable, scientific, or educational purposes under Section 812(d) of the Internal Revenue Code. The trusts in question were established to promote various social and economic causes, including unionization, civil liberties, and wilderness preservation. Critically, the trustees were granted the explicit power to draft legislation and advocate for its enactment. The court held that because the trusts' purposes included substantial legislative advocacy, the bequests were not exclusively charitable, scientific, or educational and thus not deductible.

Facts

Robert Marshall died in 1939, leaving his residuary estate to three trusts. The first trust aimed to educate the public on unionization and promote a production-for-use economic system, granting trustees power to hire organizers, publish materials, and draft and promote legislation. The second trust focused on safeguarding civil liberties, also with powers to publish and advocate for legislation. The third trust aimed to preserve wilderness conditions, empowering trustees to educate the public, oppose unfavorable regulations, and draft and promote legislation. The will authorized the trustees to transfer funds to New York nonprofit corporations aligned with the trusts' objectives or to create such corporations, with the trustees acting as directors.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax liability. The estate, as petitioner, sought a refund, claiming the bequests to the trusts were deductible. The Tax Court addressed the sole issue of whether the bequests qualified for deduction under Section 812(d) of the Internal Revenue Code.

Issue(s)

Whether bequests to trusts, which authorize trustees to draft and promote legislation related to the trusts' purposes, are deductible from the gross estate as exclusively charitable, scientific, or educational under Section 812(d) of the Internal Revenue Code.

Holding

No, because the testamentary provisions of the trusts included the drafting and campaigning for the passage of legislation, which constitutes a substantial non-charitable purpose, the bequests are not exclusively for charitable, scientific, or educational purposes and are therefore not deductible under Section 812(d) of the Internal Revenue Code.

Court's Reasoning

The court acknowledged that the term "exclusively" in Section 812(d) is construed liberally, and a bequest is deductible if its predominant purpose is charitable, scientific, or educational. However, the court found that the trusts' purpose of drafting and promoting legislation was too significant to be considered incidental to the educational goals. The court emphasized that the will demonstrated an intent not only to educate but also to bring about legislative changes. The court cited *Slee v. Commissioner*, stating that "Political agitation as such is outside the statute, however innocent the aim... Controversies of that sort must be conducted without public subvention; the Treasury stands aside from them." The court distinguished the case from *Leubuscher v. Commissioner*, where a legacy to a foundation was deductible because it was used for teaching and expounding principles, not for seeking legislation. The court found the trustees were authorized to use funds to support their bills and pay the cost of activity necessary to secure the passage of legislation. Therefore, the bequests were not exclusively for deductible purposes.

Practical Implications

This case clarifies that bequests to organizations with substantial legislative advocacy activities are not deductible for estate tax purposes, even if they also engage in charitable, scientific, or educational activities. When drafting wills or establishing trusts intended to qualify for charitable deductions, drafters must carefully limit the scope of permissible activities to avoid including substantial legislative advocacy. This ruling impacts how similar cases are analyzed by emphasizing that the powers granted to the trustees in the will are the guidepost. Later cases applying this ruling would focus on whether the entity engages in substantial attempts to influence legislation, thereby disqualifying it from receiving deductible contributions.

