3 T.C. 40 (1944)

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An estate can deduct from its gross income amounts permanently set aside in a will for charitable purposes, even if the charitable entity isn't yet fully operational during the taxable year, provided the will mandates the eventual charitable use.

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Summary

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The Estate of J.B. Whitehead sought to deduct amounts set aside for a charitable foundation from its gross income. Whitehead's will directed the creation of a foundation to use estate income for charitable and educational purposes, subject to existing settlement contracts and annuities. The Tax Court held that the estate could deduct its gross income (less specific annuities) because the will stipulated its exclusive use for charitable/educational purposes. The court reasoned that the "to be used exclusively" clause in tax law doesn't require the disbursing agency to be a fully qualified charitable organization if the will mandates exclusive charitable use of the funds. This ruling clarifies the scope of deductible charitable contributions from estates.

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Facts

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- J.B. Whitehead died in 1935, leaving his estate to a corporation (the Joseph B. Whitehead Foundation) to be formed for charitable and educational purposes.

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- The will directed the foundation to honor settlement agreements with Whitehead's former wife and widow, and to pay specified annuities.

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- His widow initially contested the will, claiming the entire estate, but later settled for $500,000.

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- The Foundation was incorporated in 1937.

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- The estate earned gross income during the taxable years (1936-1939), made payments under the settlement contracts, paid annuities, and eventually transferred income to the Foundation.

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Procedural History

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- The Estate filed fiduciary income tax returns, deducting amounts accrued to the Joseph B. Whitehead Foundation as charitable contributions.

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- The Commissioner of Internal Revenue disallowed these deductions, arguing the income was not paid to, or permanently set aside for, a qualified charitable organization.

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- The Tax Court reviewed the Commissioner’s determination.

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Issue(s)

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1. Whether the estate can deduct from its gross income amounts that were to be transferred to a charitable foundation not yet fully operational during the

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taxable years, when the will mandates the foundation's creation and charitable purpose?

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2. Whether the payments to the former wife and widow prevent the foundation from being considered exclusively charitable?

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Holding

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1. Yes, because the will mandated that the gross income (except for specific annuities) was to be used exclusively for charitable and educational purposes by a corporation organized and operated exclusively for such purposes.

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2. No, because the payments to the former wife and widow were obligations of the estate and incidental to the primary charitable purpose of the will.

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Court's Reasoning

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The Tax Court emphasized the testator's intent, as expressed in the will, to devote his estate to charitable uses after satisfying contractual obligations and specific bequests. The Court reasoned that the

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