***3 T.C. 74 (1944)***

Interest on estate tax deficiencies accruing after the distribution of estate assets to beneficiaries is deductible from the beneficiaries' gross income when they pay the interest as transferees liable for the estate's debts.

**Summary**

Ralph and Lawrence Green, as beneficiaries of their father's estate, and Ralph Green, as a beneficiary of his wife's estate, paid deficiencies in estate tax, including interest, after receiving distributions from the estates. They sought to deduct the interest payments from their gross income. The Tax Court held that interest accruing after the distribution of the estate assets was deductible because the beneficiaries became liable for the debt at that point. However, legal and accounting fees related to tax matters were deemed non-deductible personal expenses.

**Facts**

L.K. Green died in 1930, leaving his estate to his sons, Ralph and Lawrence. Lawrence acted as executor, and the estate was distributed in 1931. Nelle Green, Ralph's wife, died in 1935, and Ralph received a portion of her estate. After the distribution of both estates, the Commissioner determined deficiencies in estate tax. Ralph and Lawrence, as transferees, paid the deficiencies and associated interest in 1939. Additionally, the Greens paid legal and accounting fees related to tax advice and return preparation.

**Procedural History**

The Commissioner disallowed the Greens' deductions for interest paid on the estate tax deficiencies and for legal/accounting fees on their 1939 income tax returns. The Greens petitioned the Tax Court for redetermination of the deficiencies. The Tax Court consolidated the cases. The Tax Court ruled in favor of the Greens regarding the deductibility of post-distribution interest but against them on the deductibility of legal and accounting fees.

**Issue(s)**

1. Whether interest paid by the Greens, as transferees, on estate tax deficiencies is deductible under Section 23(b) of the Internal Revenue Code.

2. Whether legal and accounting fees paid by the Greens in connection with tax matters are deductible from their gross income.

**Holding**

1. Yes, because interest accruing on estate tax deficiencies after the distribution of assets is considered the beneficiaries' debt as transferees and is therefore

 

deductible.

2. No, because these fees were not incurred in carrying on a trade or business, nor were they directly related to the production or collection of income or the management of income-producing property.

**Court's Reasoning**

Regarding the interest deduction, the court distinguished between interest accruing before and after the estate distribution. Before distribution, the debt was the estate's. After distribution, the beneficiaries became liable as transferees. The court relied on *Scripps v. Commissioner, 96 F.2d 492*, which held that interest on a tax debt is deductible by the party legally obligated to pay it. The court stated that "When he pays interest which is accrued upon the debt from the time that he steps into the shoes of the principal debtor he is paying interest upon his own debt." The court explicitly stated it would no longer follow *Helen B. Sulzberger, 33 B.T.A. 1093*, which denied a distributee the right to deduct interest accruing after distribution. As for the legal and accounting fees, the court recognized the 1942 amendment to Section 23(a), allowing deduction of certain non-business expenses. However, it found that the expenses in question did not fall within the amended section because they were not incurred for the production or collection of income or the management of income-producing property. The court cited Treasury Decision 5196, which states that expenses for preparing tax returns or resisting tax assessments (unless related to taxes on income-producing property) are not deductible.

**Practical Implications**

This case clarifies the deductibility of interest payments made by transferees of estate assets. It establishes a clear distinction between interest accruing before and after the distribution of estate assets. Attorneys and accountants should advise beneficiaries who pay estate tax deficiencies to deduct the interest accruing after distribution on their personal income tax returns. Legal professionals should note that legal and accounting fees related to general tax advice or return preparation are typically not deductible for individuals unless directly tied to income-producing property or activities. This ruling impacts how estate planning is handled, encouraging timely distribution to allow beneficiaries to deduct interest payments. Later cases would further refine the definition of expenses deductible under Section 212 (the successor to Section 23) but this case remains important for understanding the timing of transferee liability for interest deductions.