3 T.C. 612 (1944)

A bequest to an organization is not deductible from a gross estate as a charitable contribution if a substantial part of the organization's activities involves carrying on propaganda or otherwise attempting to influence legislation.

Summary

The Estate of John B. Sharpe sought to deduct from the gross estate the value of property transferred to a trust benefiting The United Committee for the Taxation of Land Values, an organization advocating Henry George's "Single Tax" theory. The Tax Court denied the deduction, finding the Committee engaged in substantial activities aimed at influencing legislation and thus did not qualify as an exclusively charitable or educational organization under Section 303(a)(3) of the Revenue Act of 1926. The court also denied a deduction for the present value of future trustee commissions.

Facts

John B. Sharpe created a trust, with the Union Trust Co. as trustee, directing that income be paid to him during his life, and after his death, the corpus and accumulated income be paid to The United Committee for the Taxation of Land Values, Limited, of London, England. The trust was to continue for 25 years, with annual payments to the Committee. The Committee advocated the "Single Tax" theory. Sharpe's will bequeathed his residuary estate to the same trust. The trust instrument directed the Committee to use the funds primarily for distributing literature advocating land value taxation.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in estate tax, disallowing the deduction claimed by the executor for the transfer to the United Committee. The executor petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the value of the corpus of a trust established for the benefit of a corporation advocating the "Single Tax" is deductible from the gross estate as a transfer for charitable or educational purposes under Section 303(a)(3) of the Revenue Act of 1926.

2. Whether the present value of executor's commissions on corpus payable to the beneficiary in the future is deductible from the gross estate.

Holding

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1. No, because the United Committee engaged in substantial activities aimed at influencing legislation and therefore was not an organization operated exclusively for charitable or educational purposes.

2. No, because such future commissions are not measurable by applying percentage rates to the property's value at the time of the decedent's death but only when distributed.

Court's Reasoning

The court reasoned that the Committee's memorandum and articles of association showed its purpose was not exclusively charitable or educational, as it aimed to "assist in all proper ways to establish the same [Single Tax principles] in practical operation of law" and to do "all other acts that may tend to further the objects named." Citing *Slee v. Commissioner*, the court stated that advocating the abolition of taxes on industry and replacing them with a single tax on land was not exclusively educational but dissemination of controversial propaganda. The court pointed to evidence from the Committee's publications demonstrating activities aimed at influencing legislation, such as supporting a London County Council bill. The court also determined that the transfer was to the Committee directly, not to the Committee as a trustee of a separate charitable trust.

Regarding the trustee commissions, the court relied on *Central Hanover Bank & Trust Co. v. Commissioner*, stating that future commissions are not measurable at the time of death. The court distinguished the case from situations where trustee commissions were payable before the property was turned over to the estate.

Practical Implications

This case illustrates the strict interpretation of Section 303(a)(3) regarding deductions for transfers to organizations with legislative agendas. It reinforces that for a bequest to be deductible, the beneficiary organization must be primarily engaged in charitable or educational activities, not in substantial efforts to influence legislation. Attorneys advising clients on estate planning must carefully examine the activities of potential beneficiary organizations to ensure they meet the statutory requirements for deductibility. This case also highlights the difficulty of deducting future expenses or commissions in estate tax calculations, particularly when those expenses are contingent and not yet ascertainable at the date of death.

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