4 T.C. 158 (1944)

A charitable deduction for estate tax purposes is disallowed where a charity acquires property not directly through a valid bequest in the decedent's will, but through a settlement agreement involving a purchase of interests from the decedent's heirs.

Summary

The estate of Frederick Dumont sought to deduct a bequest to Lafayette College as a charitable contribution for estate tax purposes. Dumont's will, executed shortly before his death, contained a bequest to the college, but Pennsylvania law invalidated charitable bequests made within 30 days of death. Lafayette College challenged the will's validity, and a settlement was reached where the decedent's heirs sold their interests in the bequest to the college. The Tax Court held that the college acquired the property by purchase from the heirs, not by bequest from the decedent, and thus the charitable deduction was not allowable.

Facts

Frederick Dumont died on June 4, 1939, leaving a will executed on May 19, 1939. The will bequeathed the residue of his estate to a trust, with income payable to the president of Lafayette College for college purposes. An earlier will, executed more than 30 days before Dumont's death, contained a similar provision. Because the 1939 will was executed within 30 days of Dumont's death, Lafayette College's bequest was void under Pennsylvania law. Lafayette College contested the probate of the 1939 will based on Dumont's alleged lack of testamentary capacity.

Procedural History

The 1939 will was admitted to probate. Lafayette College appealed, contesting the will's validity. A settlement agreement was reached between Lafayette College and Dumont's heirs, wherein the heirs assigned their interest in the bequest to Lafayette College in exchange for consideration. The Orphans' Court approved the agreement. The estate tax return included a deduction for the bequest to Lafayette College, which the Commissioner of Internal Revenue disallowed. The Tax Court reviewed the Commissioner's disallowance.

Issue(s)

Whether the amount passing to Lafayette College qualified as a deductible charitable bequest under Section 812(d) of the Internal Revenue Code, given that the college acquired the interest through a settlement agreement rather than directly under a valid will provision?

Holding

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No, because Lafayette College acquired the residue of Dumont's property as a purchaser from the heirs and next of kin of the decedent, and not as a legatee under a valid bequest. Also, there was no valid disclaimer because the heirs received consideration for their assignment.

Court's Reasoning

The Tax Court reasoned that for a bequest to be deductible under Section 812(d), it must be a direct act of the decedent. The court emphasized that Pennsylvania law governed the validity of the bequest. Under Pennsylvania law, bequests to charitable organizations made within 30 days of death are void. Therefore, the bequest to Lafayette College in the 1939 will was invalid from the outset. The court distinguished the case from *Lyeth v. Hoey*, where the Supreme Court held that amounts received in settlement of a will contest were acquired "by inheritance." In this case, the court reasoned that Lafayette College did not acquire the property by inheritance or bequest, but through a purchase from the heirs. The court also rejected the argument that the settlement agreement constituted an irrevocable disclaimer because the heirs received consideration for their assignment, which negates a true disclaimer. The court cited *In re Arnold's Estate*, stating, "From the earliest interpretation of the statute to the present time, we have uniformly held, as the act declares, that estates devised or bequeathed contrary to its provisions are void."

Practical Implications

This case illustrates the importance of adhering to state laws regarding charitable bequests made close to the time of death. It clarifies that a charitable deduction will not be allowed if the charity's interest is acquired through a purchase or settlement with the heirs, rather than through a valid bequest directly from the decedent. Attorneys advising clients on estate planning should be aware of these restrictions and ensure that charitable bequests are made well in advance of the testator's death to avoid disallowance of the charitable deduction. It emphasizes that federal tax law looks to state law to determine the validity of a bequest. Later cases have cited *Estate of Dumont* to reinforce the principle that the substance of the transaction, rather than its form, controls for estate tax purposes.

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