4 T.C. 1006 (1945)

A bequest in a will to a trustee to purchase iron lungs for hospitals that need them is a deductible charitable bequest for estate tax purposes, even if the will's language is broad, provided the bequest is ultimately used exclusively for charitable purposes.

Summary

The Estate of Blanche B. Gilbert sought to deduct a charitable bequest from its gross estate for estate tax purposes. Gilbert's will directed her residuary estate to be used to purchase iron lungs for hospitals. The IRS disallowed the deduction, arguing the will was too indefinite. The Tax Court held that the bequest was deductible because the will intended the funds to be used for charitable hospitals and the executor ultimately distributed the funds to qualifying charitable institutions. The court also determined that the charitable legatee took by inheritance, not by purchase, even though a portion of the residuary was paid to settle a will contest.

Facts

Blanche B. Gilbert died, leaving a handwritten will directing her residuary estate to be spent on iron lungs to be given to hospitals that needed them. Her will also provided monthly annuities to her sister and niece. The will stated, "For reasons of my own I leave nothing more to my family. The remainder I want 'iron lungs' bought for hospitals that need them." Gilbert's next of kin initially challenged the will, alleging lack of testamentary capacity. The executor, Girard Trust Company, entered into a settlement agreement with the next of kin, subject to court approval, under which the next of kin would receive one-fourth of the residuary estate plus $875, with the remainder to be used for the iron lung bequest.

Procedural History

The will was admitted to probate by the Register of Wills of Philadelphia County. The Orphans' Court of Philadelphia County approved the settlement agreement. The executor filed a federal estate tax return claiming a charitable deduction for the iron lung bequest. The IRS disallowed the deduction, leading to this action in the Tax Court.

Issue(s)

1. Whether a bequest to purchase iron lungs for "hospitals that need them" is a charitable bequest deductible from the gross estate under Section 812(d) of the Internal Revenue Code.
2. Whether the amount received by the executor for the charitable bequest was acquired by inheritance and deductible under Section 812(d), or whether it was acquired by purchase due to the settlement agreement with the decedent's next of kin.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. Yes, because the will's language evinced an intent to benefit charitable hospitals, and the executor distributed the funds exclusively to qualifying charitable organizations.
2. Yes, because the charitable legatee took by inheritance, not by purchase, even though a portion of the residuary was paid to settle a will contest.

Court's Reasoning

The court reasoned that even if the will's language was ambiguous, the executor sought and obtained a construction from the Orphans' Court, which determined the bequest was limited to charitable institutions. The Tax Court independently agreed with this construction. Even assuming the Tax Court wasn't bound by the Orphans' Court's decision, the Tax Court found that the term "hospitals in need" meant public hospitals not operated for private profit. The court emphasized that the executor only purchased iron lungs for qualifying public hospitals. Regarding the settlement agreement, the court distinguished its prior decision in *Estate of Frederick F. Dumont*, 4 T.C. 158, noting that in *Dumont*, the bequest was void under Pennsylvania law. Here, the will was valid; the settlement merely reduced the amount of the bequest. The court cited *In re Sage's Estate v. Commissioner*, 122 F.2d 480, and *Thompson's Estate v. Commissioner*, 123 F.2d 816, for the proposition that a charitable deduction is allowable even when a portion of the bequest is diverted to settle a will contest, provided the charitable legatee still takes under the will.

The court stated: "We construe the provisions of the will providing for the purchase of iron lungs for 'hospitals in need' as meaning only public hospitals which are not operated for private profit… We hold that decedent's bequest for the purchase of these iron lungs for hospitals in need of them is deductible, subject to the limitations hereinafter set out, as a bequest to charity under the provisions of section 812 (d)."

Practical Implications

This case illustrates that charitable bequests in wills should be drafted with sufficient clarity to ensure deductibility for estate tax purposes. While broad language is not necessarily fatal, the executor must ensure the funds are ultimately used for qualifying charitable purposes. The case confirms that settlements of will contests do not automatically disqualify charitable deductions, provided the charitable legatee's entitlement derives from the will itself and the bequest is valid under state law. Attorneys should advise executors to seek judicial construction of ambiguous will provisions to support the deductibility of charitable bequests. Later cases cite Gilbert for the proposition that a good faith settlement does not void a charitable contribution deduction. This provides reassurance to estate planners and executors when faced with potential will contests.

© 2025 SCOTUSreports.com. All rights reserved.