U.S. Nat'l Bank in Johnstown v. Comm'r, 21 B.T.A. 190 (1930)

Expenses incurred by a widow related to the filing of a decedent's federal estate tax return are not deductible from the gross estate as administration expenses under Section 812 of the Internal Revenue Code if they are not chargeable against the decedent's estate under state law.

Summary

The U.S. National Bank in Johnstown, as executor, sought to deduct expenses paid to executors and attorneys by the decedent's widow for services related to filing the federal estate tax return. The Board of Tax Appeals denied the deduction, holding that Section 812 of the Internal Revenue Code only allows deductions for administration expenses as are allowed by the laws of the jurisdiction under which the estate is administered. Because the expenses were not chargeable against the decedent's estate under Pennsylvania law, they were not deductible for federal estate tax purposes.

Facts

The decedent's widow agreed to pay the executors and their attorneys certain amounts in connection with the filing of the decedent's federal estate tax return.

Procedural History

The executor, U.S. National Bank in Johnstown, claimed a deduction for these expenses on the estate tax return. The Commissioner disallowed the deduction, leading to this appeal before the Board of Tax Appeals.

Issue(s)

Whether amounts paid to executors and their attorneys by the decedent's widow in connection with filing the federal estate tax return are deductible from the gross estate as administration expenses under Section 812 of the Internal Revenue Code.

Holding

No, because Section 812 allows deductions only for administration expenses as permitted by the laws of the jurisdiction under which the estate is administered, and these expenses were not chargeable against the decedent's estate under Pennsylvania law.

Court's Reasoning

The Board of Tax Appeals focused on the language of Section 812 of the Internal Revenue Code, which permits deductions for administration expenses "as are allowed by the laws of the jurisdiction… under which the estate is being

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administered.” The Board emphasized that the deduction is to cover actual expenses of administering the decedent’s estate under the relevant state laws. In this case, the amounts in question were not expenses of administering the estate under Pennsylvania law and were not chargeable against the estate itself. The agreement was between the widow and the executors/attorneys. The Board stated, “The Tax Court can not legislate, and no matter how reasonable some additional deduction might appear to be, it can allow only those deductions which are proper under the statutes which Congress has enacted.” Therefore, because the expenses were not deductible under the statute, the Board disallowed them.

Practical Implications

This case illustrates the importance of understanding the interplay between federal tax law and state probate law. Expenses must not only qualify as

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