5 T.C. 1246 (1945)

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The deduction for previously taxed property under Section 812(c) of the Internal Revenue Code is limited to the net residue of the prior estate received by the decedent after payment of debts, taxes, and expenses.

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Summary

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Ada Wilkinson's estate claimed a deduction for property previously taxed in her husband's estate. Ada, the sole legatee of her husband Horace's estate, received property before his estate's debts were fully paid and subsequently paid those debts herself. The Tax Court held that the deduction for previously taxed property is limited to the net residue Ada was entitled to receive under her husband's will, i.e., after payment of all debts and expenses. The court reasoned that Ada effectively purchased the portion of the estate equivalent to the debts she paid.

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Facts

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Horace Wilkinson died in 1937, leaving his entire estate to his wife, Ada, who was also the executrix of his will. Horace's will directed that his debts and expenses be paid. Ada received assets from Horace's estate valued at $2,477,631.67. At the time Ada received the property, Horace's estate had outstanding debts, taxes, and charges of $1,080,961.77, which Ada subsequently paid from her own funds. Ada died in 1941, and her estate sought a deduction for previously taxed property based on the full value of the assets received from Horace's estate.

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Procedural History

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The Commissioner of Internal Revenue disallowed a portion of the deduction

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claimed by Ada’s estate, arguing that Ada effectively purchased a portion of the estate by paying Horace’s outstanding debts. Ada’s estate petitioned the Tax Court for review. The Tax Court upheld the Commissioner’s determination.

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Issue(s)

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Whether the deduction for previously taxed property under Section 812(c) of the Internal Revenue Code extends to the full value of property received from a prior estate when the recipient paid debts and expenses of the prior estate from their own funds.

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Holding

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No, because the deduction for previously taxed property is limited to the net residue of the prior estate the decedent was entitled to receive under the will, after payment of debts, taxes, and expenses.

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Court’s Reasoning

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The Tax Court reasoned that Ada was only entitled to receive the

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