Cutler's Estate v. Commissioner, 6 T.C. 86 (1946)

A charitable bequest is deductible from a gross estate only if its value is presently ascertainable at the time of the decedent's death, meaning the conditions impacting the bequest are fixed and reliably predictable.

Summary

The Tax Court addressed whether a charitable bequest from a trust was deductible from the decedent's gross estate under Section 812(d) of the Internal Revenue Code. The will granted the trustee discretion to invade the trust principal for the benefit of the decedent's wife. The court held that because the extent to which the corpus of the trust could be diverted for the wife's benefit was not reliably predictable at the time of the decedent's death, the charitable bequest did not have a presently ascertainable value and was therefore not deductible. The court also addressed transferee liability for estate taxes.

Facts

Decedent created a trust in 1926. The decedent's will bequeathed money to endow beds in two hospitals, payable after the death of his wife, Edith Cutler, from the principal of a trust created by the will. The remainder of the trust fund was to be paid to Newton Trust Co. as trustee of a "Permanent Charity Fund." The trustee of the will's trust was given broad discretion to use the principal for the use and benefit of the decedent's wife. The IRS stipulated that the charities were qualified for deductions under Section 812(d), but argued that the bequests lacked a presently ascertainable value due to the trustee's discretionary power to invade the corpus for the wife's benefit.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax and also asserted transferee liability against the Newton Trust Co., as trustee of the 1926 trust. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether the value of property passing under a power of appointment exercised by the decedent is the full value of the property or the discounted value reflecting restrictions on immediate transfer.
2. Whether charitable bequests made by the decedent are deductible under Section 812(d) of the Internal Revenue Code, considering the trustee's power to invade the trust principal for the benefit of the decedent's wife.
3. Whether the trustee of the 1926 trust is liable as a transferee for the estate tax due from the decedent's estate.

Holding

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1. No, because the value of the property passing under the power of appointment is the sum of the values of the right to receive income during the life of decedent's brother and the right to receive the principal upon the brother's death, and these rights should be separately valued.
2. No, because the extent to which the corpus of the trust could be diverted for the wife's benefit was not reliably predictable, and thus the charitable bequests did not have a presently ascertainable value.
3. Yes, because the trustee of the 1926 trust is acting in a fiduciary capacity for the trustee of the decedent's trust and is therefore required to assume the duty to pay the additional tax due to the extent of the assets of the transferee held.

Court's Reasoning

Regarding the power of appointment, the court reasoned that the decedent did not have the power to appoint the immediate transfer of half the principal because the trust continued until the death of his brother, William. The value of the property passing under the power of appointment is the sum of the values of (1) the right to receive income during William's life and (2) the right to receive the principal upon William's death.

Regarding the charitable bequests, the court emphasized that for a charitable bequest to be deductible, its value must be

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