

## **8 T.C. 531 (1947)**

Attorneys' fees incurred by beneficiaries to collect life insurance proceeds are not deductible from the gross estate as administration expenses or claims against the estate, and the full insurance proceeds are includible in the gross estate.

### **Summary**

The decedent's estate tax return excluded attorneys' fees paid by the beneficiaries to collect double indemnity payments on life insurance policies. The Tax Court held that the full amount of the insurance proceeds, including the portion paid to the attorneys, was includible in the gross estate. The court reasoned that the attorneys' fees were obligations of the beneficiaries, not the decedent, and did not diminish the amount of the net estate transferred by death. Additionally, the fees were not deductible as administration expenses or claims against the estate because they were not incurred by the executor or related to administering the estate itself.

### **Facts**

Will Wright died in 1943, holding two life insurance policies: one for \$5,000 payable to his daughters and another for \$10,000 payable to his wife. Both policies included double indemnity provisions for accidental death and were not subject to claims against Wright's estate. After Wright's death, the beneficiaries hired attorneys to pursue double indemnity claims. They agreed to pay the attorneys one-third of any amount recovered above the face value of the policies and assigned the attorneys that interest from the recovery.

### **Procedural History**

The estate tax return reported the insurance proceeds net of the attorneys' fees. The Commissioner of Internal Revenue determined that the entire proceeds should be included in the gross estate, resulting in a deficiency. The estate petitioned the Tax Court, arguing that only the net amount received by the beneficiaries should be included or, alternatively, that the attorneys' fees should be deductible.

### **Issue(s)**

1. Whether the amount of attorneys' fees paid by life insurance beneficiaries to collect insurance proceeds is includible in the decedent's gross estate.
2. If the attorneys' fees are includible, whether they are deductible as administration expenses or claims against the estate under Section 812(b) of the Internal Revenue Code.

### **Holding**

1. Yes, because the full amount of the insurance proceeds was "receivable...as insurance" by the beneficiaries, and the attorneys' fees were their personal

obligations.

2. No, because the attorneys' fees were not expenses of administering the decedent's estate and were not claims against the estate.

### **Court's Reasoning**

The court reasoned that under Section 811(g)(2) of the Internal Revenue Code, the gross estate includes the amount receivable by beneficiaries as insurance. The fact that the beneficiaries incurred expenses to collect the insurance does not reduce the amount of insurance receivable. The court stated, "The insurance companies were not obligated to pay attorneys' fees or expenses, but only insurance. What they paid was therefore 'receivable \* \* \* as insurance' by the beneficiaries." The court distinguished the situation from cases involving loans against insurance policies, where the beneficiaries only have a right to the net value of the policy.

Furthermore, the court held that the attorneys' fees were not deductible under Section 812(b)(2) or (3) because they were not administration expenses or claims against the estate. The executors did not hire the attorneys, and the insurance policies were not subject to claims against the estate. The court emphasized that the fees did not benefit the estate and were not allowable under Texas law as expenses of estate administration. Citing *Estate of Robert H. Hartley*, the court reiterated that administration expenses must be actual expenses of administering the decedent's estate under the relevant jurisdiction's laws.

### **Practical Implications**

This case clarifies that the gross estate includes the full amount of life insurance proceeds receivable by beneficiaries, regardless of any expenses they incur to collect those proceeds. It also reinforces the principle that deductible administration expenses are limited to those directly related to administering the decedent's estate under applicable state law.

Attorneys preparing estate tax returns should be careful not to deduct expenses incurred by beneficiaries personally, even if those expenses relate to assets included in the gross estate. Later cases have cited *Wright* for the proposition that expenses must benefit the estate itself to be deductible as administration expenses.