T.C. Memo. 1946-250

A charitable deduction from a gross estate is not allowable under federal law if the bequest to the charity was void under state law, even if the residuary legatees agree to allow the property to pass to the charity.

Summary

The Tax Court addressed whether bequests to religious and charitable organizations were deductible from the gross estate under Section 812(d) of the Internal Revenue Code. The decedent's will, executed less than 30 days before her death, included bequests to charities. Pennsylvania law voided such bequests. Although the residuary legatees agreed to allow the property to pass to the charities, the court held that the bequests were void under state law. Because the property passed to the charities via the residuary legatees' agreement and not directly from the decedent's will, the estate was not entitled to a charitable deduction for federal estate tax purposes. The court emphasized that federal tax law depends on state property law to determine the validity of the bequest.

Facts

Emily S. Mason (decedent) died within 30 days of executing her will. The will included bequests to religious and charitable organizations. A Pennsylvania statute provided that bequests for religious or charitable uses made within 30 days of death are void and pass to the residuary legatees, heirs, or next of kin. The will's residuary legatees agreed to allow the property to pass to the charities, and the orphans' court approved the executor's account showing distributions to the charities.

Procedural History

The Commissioner of Internal Revenue disallowed the estate's deduction for the charitable bequests. The Estate of Emily S. Mason petitioned the Tax Court for a redetermination of the estate tax deficiency. The Orphans' Court issued a supplemental opinion that the statute could be construed as voidable rather than absolutely void under certain circumstances. The Tax Court considered this opinion but ultimately sided with the Commissioner.

Issue(s)

Whether the value of property received by charitable and religious organizations under a will executed less than 30 days before the testator's death is deductible from the gross estate under Section 812(d) of the Internal Revenue Code, when state law voids such bequests but the residuary legatees agree to allow the property to pass to the charities.

Holding

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No, because the bequests to the charities were void under Pennsylvania law, and the property passed to them through the agreement of the residuary legatees, not directly from the decedent's will as required for a deduction under Section 812(d) of the Internal Revenue Code.

Court's Reasoning

The court reasoned that the Pennsylvania statute, P.L. 141, made the bequests to the charities void. The residuary legatees became vested with the property upon the testator's death by operation of the statute. The court rejected the petitioner's argument that the residuary legatees' agreement and the orphans' court's approval transformed the transfers into deductible bequests. Citing *In re Hartman's Estate*, the court stated that the Pennsylvania act must be literally construed, and any construction to save the charitable bequests is not permitted. The court distinguished *Dumont's Estate v. Commissioner* and *Lyeth v. Hoey*, noting that in those cases, the charities or individuals had a legal standing under local law that the charities in this case lacked. Here, there was no settlement of rival claims; the charities had no standing under the will, and the residuary legatees became vested with the property by operation of law. The court emphasized that what went to the charities went to them through the agreement of the residuary legatees and not under the will of the testator. Citing *Robbins v. Commissioner*, the court stated that property Amherst College received through a compromise agreement could not be regarded as a "bequest" from the testator within the meaning of the revenue act because "whatever rights Amherst College has come to it through the compromise agreement and not under the will of the testator."

Practical Implications

This case illustrates the crucial interplay between federal tax law and state property law. Estate planners must be acutely aware of state statutes that restrict charitable bequests, especially those related to the timing of will execution before death. Even if all parties agree to honor the decedent's wishes, a charitable deduction will be disallowed for federal estate tax purposes if the bequest is initially void under state law and the property passes to the charity through means other than a direct bequest in the will. Attorneys must analyze the source of the transfer to the charity. This case underscores the need for careful planning to ensure that charitable intentions are carried out in a way that maximizes tax benefits for the estate. Later cases applying this principle will scrutinize the validity of the charitable bequest under state law before considering federal tax implications. The amendment to section 812(d) does not apply unless there is a valid bequest by the decedent for charitable purposes.

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