9 T.C. 1120 (1947)

In a community property state, the portion of a deceased spouse's estate attributable to the surviving spouse's personal services is excluded from the gross estate for federal estate tax purposes.

Summary

The Tax Court addressed whether the entirety of a community estate in Texas was taxable in the deceased husband's estate. The wife had primarily generated the estate's wealth through her operation of boarding and rooming houses. The court held that profits derived from the wife's personal services were excludable from the husband's gross estate under Section 811(e)(2) of the Internal Revenue Code, reflecting Congressional intent to exclude property economically attributable to the surviving spouse. The exclusion, however, only extended to the proven amount directly derived from her services.

Facts

Frank and Louise Neumann married in Texas in 1901 and resided there until Frank's death in 1944. They had no property at the time of their marriage. Frank worked various jobs with limited earnings (averaging $40-$60/month). Louise, demonstrating significant business acumen, established and managed successful boarding and rooming houses, first in Corpus Christi and later in Beaumont. From these ventures, she saved $27,000, which was used to purchase and improve a farm. The farm and other assets constituted the community property at the time of Frank's death.

Procedural History

Louise, as the independent executrix of Frank's estate, filed a federal estate tax return listing all community property but claimed only half was taxable, arguing she had personally earned the funds used to acquire it. The Commissioner determined the entire community property value was taxable under Section 811(e)(2) of the Internal Revenue Code. Louise challenged the Commissioner's determination in the Tax Court.

Issue(s)

Whether profits from a wife's operation of a boarding and rooming house in Texas, a community property state, constitute "compensation for personal services actually rendered" within the meaning of Section 811(e)(2) of the Internal Revenue Code.

Holding

Yes, because the language of the statute does not require an employer-employee relationship and demonstrates Congress' intent to exclude property economically

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attributable to the surviving spouse.

Court’s Reasoning

The court interpreted Section 811(e)(2) of the Internal Revenue Code, which generally includes all community property in the deceased spouse’s gross estate but excepts portions received as compensation for the surviving spouse’s personal services. The court rejected the Commissioner’s narrow interpretation that

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