10 T.C. 692 (1948)

A bequest to a trustee for religious or educational purposes is deductible from the gross estate, even if the will specifies a preference for relatives in the selection of beneficiaries, so long as the charitable purpose is not limited solely to relatives.

Summary

The Tax Court addressed whether a bequest to a trustee for scholarships, with a preference given to relatives, qualified as a charitable deduction from the gross estate under Section 812(d) of the Internal Revenue Code. Annie Sells' will established a trust using bank stock dividends for scholarships, prioritizing relatives. The court held that the bequest was deductible because the will's language did not limit the educational purpose solely to relatives but rather expressed a preference. This distinction was crucial in determining the public versus private benefit of the trust.

Facts

Annie Sells, at age 78, wrote a will in which she stated her desire to set aside bank stock as an educational loan fund, with dividends used for scholarships, prioritizing relatives or other boys and girls. She also wished for $200 annually to be given to the First Methodist Church for missions. The will named no specific trustee. Upon Annie Sells' death, the bank stock was transferred to Orange National Bank as trustee by order of the probate court. The will was not contested and the heirs agreed to the will's interpretation.

Procedural History

The executors of Annie Sells' estate filed an estate tax return, claiming a deduction for the bank stock bequeathed for charitable purposes. The Commissioner of Internal Revenue disallowed the deduction, leading to a deficiency assessment. The executors petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether a bequest to a trustee, the income of which is to be used for scholarships with a preference for relatives, qualifies as a deduction from the gross estate under Section 812(d) of the Internal Revenue Code as a transfer exclusively for religious or educational purposes.

Holding

Yes, because the decedent's will expressed a preference for relatives but did not limit the educational purpose of the trust solely to relatives, thus satisfying the requirement that the bequest be used exclusively for religious or educational purposes.

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Court’s Reasoning

The court emphasized that wills should be construed to effectuate the testator’s intention, and if a general charitable purpose is evident, a broad and liberal construction should be applied. The court found that Annie Sells intended to create a trust for religious and educational purposes, with the bank stock as the funding source. The court distinguished this case from *Amy Hutchison Crellin, 46 B.T.A. 1152*, where the trust primarily benefitted specifically named relatives, potentially exhausting the fund. Here, the trust was perpetual, using only income, and the preference for relatives did not preclude benefiting a broader class of beneficiaries. The court cited legal precedent, including the Restatement of Trusts and *Commonwealth Trust Co. of Pittsburgh v. Granger, 57 F. Supp. 502*, supporting the principle that a trust is not rendered private merely because it directs a preference for relatives in selecting beneficiaries.

Practical Implications

This case clarifies that charitable bequests with preferences for relatives can still qualify for estate tax deductions if the benefit is not limited solely to those relatives and serves a broader public purpose. Attorneys drafting wills and trusts should carefully word provisions to ensure a clear charitable purpose and avoid language that could be interpreted as creating a private benefit. Estate planners can use this ruling to advise clients on structuring charitable gifts to maximize tax benefits while still accommodating family preferences. Later cases applying or distinguishing this ruling will likely focus on whether the preference effectively excludes non-relatives from benefiting from the charitable gift.

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