13 T.C. 14 (1949)

Expenses incurred in administering a revocable trust after the grantor's death are not deductible from the gross estate for federal estate tax purposes, unless they represent liabilities existing at the time of death or qualify as administration expenses of the estate itself.

Summary

The Tax Court addressed whether attorney fees and other administrative expenses related to an inter vivos trust, includible in the decedent's gross estate, could be deducted for estate tax purposes. The court held that these expenses were not deductible because they were operating costs of the trust, not liabilities existing at the decedent's death, nor were they administration expenses of the decedent's estate. The trust continued after the decedent's death, distinguishing it from situations where trust termination is triggered by death and expenses are directly related to estate settlement.

Facts

Elizabeth Haggart created a revocable inter vivos trust, funded with approximately $328,400, reserving the income for life. The trust authorized the trustee to pay debts and administrative expenses of her estate if her individual estate was insufficient. Upon her death, specific amounts were to be paid to named individuals, with the residue continuing in trust for nieces and nephews, and ultimately to grandnieces and grandnephews. Haggart's will directed that the residue of her estate be paid to the trust, and estate taxes be paid out of her general estate. After Haggart's death, the trust incurred expenses for attorney fees, commissions, notary fees, and filing costs. These expenses were approved by the Orphans' Court in the trust accounting.

Procedural History

The executors filed separate accounts for the inter vivos trust and the decedent's estate with the Orphans' Court of Philadelphia County, which approved both accounts. An estate tax return was filed, claiming deductions for the trust's administrative expenses. The Commissioner of Internal Revenue disallowed these deductions, resulting in a deficiency. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether attorney fees and administrative expenses of a revocable trust, included in the gross estate under Section 811(c) of the Internal Revenue Code, are deductible either as a charge against the trust assets or as an administration expense of the estate under Section 812(b).

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Holding

1. No, because the expenses were operating costs of the trust, not liabilities existing at the decedent's death, nor were they administration expenses of the decedent's estate.

Court's Reasoning

The court reasoned that while the Internal Revenue Code allows deductions for administration expenses in computing the net estate, it does not provide for deducting operating expenses of a trust, even if the trust assets are included in the gross estate. The court distinguished Elroy N. Clark et al., Trustees, 1 T. C. 663, noting that in Clark, the trust terminated at the death of the trustor's wife, making the winding up of the trust a necessary act in administering the estate. Here, the trust continued indefinitely after the decedent's death. The court also cited Estate of Cora C. Reynolds, 45 B. T. A. 44, stating,

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