Estate of John C. Hume v. Commissioner, 1945, 4 T.C. 827

Executor's commissions are deductible from the gross estate in computing the net estate for federal estate tax purposes, even before they have been paid or allowed by the court, provided the estimated amount is reasonable under local law.

Summary

The estate of John C. Hume sought to deduct executor's commissions from the gross estate for federal estate tax purposes. The Commissioner argued that commissions should only be allowed on the amount of the estate actually received and disbursed. The Tax Court held that a reasonable estimate of executor's commissions, calculated using statutory rates under New York law, is deductible, even if not yet paid or approved by the court, as long as it is a reasonable estimate of what will ultimately be allowed.

Facts

The petitioner, the executor of the Estate of John C. Hume, sought to deduct $9,686.30 in executor's commissions, calculated according to New York statutory rates on the adjusted gross estate ($492,815.11), less the value of real estate ($9,500). The estate consisted largely of securities. The Commissioner conceded that commissions on approximately $140,000, representing the amount received and disbursed by the executor, were deductible but contested the deductibility of any additional commissions.

Procedural History

The case originated before the Tax Court of the United States (then known as the Board of Tax Appeals) after the Commissioner of Internal Revenue disallowed a portion of the deduction claimed by the estate for executor's commissions. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether the estate is entitled to deduct from the gross estate a reasonable estimate of executor's commissions, computed at the statutory rates under New York law, even though such commissions have not yet been paid or allowed by the Surrogate's Court.

Holding

Yes, because expenses of administration, including executor's commissions, are deductible in computing the net estate for federal estate tax purposes before they have been paid or allowed by the court having jurisdiction of the estate, provided such expenses are a reasonable estimate of the amount allowable under local law.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court relied on established precedent and regulations, including Regulations 105, sec. 81.33, which permits the deduction of administration expenses, including executor’s commissions, if they are a reasonable estimate of the amount allowable under local law. The court cited several prior cases, including *Samuel E. A. Stern et al., Executors, 2 B. T. A. 102* and *James D. Bronson, 7 B. T. A. 127*, to support this principle. The court noted that changes in statutory rates or estate value are matters of conjecture. The court also referenced New York Surrogate’s Court Act Section 285, which provides the statutory rates for executor’s commissions. The court emphasized that it is customary practice for Surrogates to accept values fixed in estate tax proceedings as of the date of death as the basis for calculating receiving commissions. The court stated, “In our opinion the amount of $9,686.30 is a reasonable estimate of the amount of executor’s commissions allowable under the laws of New York.”

Practical Implications

This case confirms that estates can deduct a reasonable estimate of executor’s commissions on the federal estate tax return, even before those commissions are formally approved by the probate court. This allows for a more accurate calculation of the estate tax liability and can potentially reduce the tax owed. It provides a clear standard for determining the deductibility of executor’s commissions, linking it to the statutory rates and customary practices of the local jurisdiction. Attorneys and executors can rely on this case when preparing estate tax returns and estimating deductible expenses. The case also highlights the importance of understanding local law regarding executor’s commissions in determining the allowable deduction. This ruling continues to be relevant in estate tax planning and administration. Later cases cite this when addressing deductible administrative expenses.

© 2025 SCOTUSreports.com. All rights reserved.