***15 T.C. 770 (1950)***

When a state court makes a valid determination of property rights in a non-collusive, adversarial proceeding, the federal tax court is bound by that decision when determining federal tax liability.

**Summary**

The Tax Court addressed deficiencies in estate and income taxes related to the Estate of A. Bluestein. The central issue was the extent of A. Bluestein's property ownership at the time of his death, specifically, whether assets held in his name were entirely his or if his sons had a prior claim due to their mother's unacknowledged will. A Texas court determined that the sons held a significant portion of the property. The Tax Court held that it was bound by the Texas court's decision and could only tax the portion of the estate actually owned by the decedent and the estate, and addressed related issues like charitable contribution deductions and goodwill valuation.

**Facts**

A. Bluestein's wife died in 1919, leaving her community property share and separate property to their three sons in a will. Bluestein probated the will but did not inform his sons of its contents, continuing to manage the assets as his own. Bluestein died in 1944, bequeathing the business primarily to two of his sons. The third son, Ed, discovered his mother's will and sued his brothers, claiming his share of his mother's property. The business was a successful mercantile operation, and the assets in question represented years of accumulated profits and investments.

**Procedural History**

Ed Bluestein sued his brothers in Texas state court, seeking to enforce the terms of his mother's will. The Texas District Court initially ruled in favor of Ed, determining the ownership interests in the property. This judgment was later challenged by a grandchild but was ultimately affirmed by the Texas Court of Civil Appeals in Born et al. v. Bluestein et al., 220 S. W. (2d) 345. The Commissioner of Internal Revenue then assessed estate and income tax deficiencies, claiming the entire estate was taxable to A. Bluestein. The executor appealed to the Tax Court.

**Issue(s)**

1. Whether the Tax Court is bound by the Texas court's decision regarding the ownership of assets held in A. Bluestein's name at the time of his death.

2. Whether income from the business should be taxed entirely to A. Bluestein's estate or proportionally to the actual ownership interests as determined by the Texas court.

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3. Whether the estate can deduct its proportionate share of charitable contributions made by the business.

4. What is the value of the goodwill of the business.

5. Whether court costs, including attorney’s fees, incurred during the state court litigation are deductible from the gross estate.

**Holding**

1. Yes, because the Texas court proceedings were a genuine, adversarial dispute, and the Tax Court is bound by state court determinations of property rights in such cases.

2. No, because only the income from A. Bluestein’s one-half interest should be taxed to him and his estate.

3. Yes, because the estate’s share of charitable contributions made by the business is deductible from the estate’s gross income.

4. The goodwill of the business was valued at $69,640.

5. Yes, because these costs were necessary for the administration of the estate and are deductible under <span normalizedcite="26 U.S.C. 812 (b)

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