18 T.C. 788 (1952)

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The period of estate administration cannot be unduly prolonged for tax purposes; income is taxed to beneficiaries when the administration period has effectively ended and income is currently distributable.

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Summary

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The Tax Court addressed whether dividend income from stock held by an estate should be taxed to the estate or to the beneficiaries. The decedent's estate had been largely distributed by 1940, but the executors retained bank stock. The court held that the estate administration period had ended for tax purposes before the years in question. The court reasoned that the executors' activities were no longer administrative duties, and the income was currently distributable to the beneficiaries, thus taxable to them. This case clarifies the factors determining when an estate administration is considered complete for tax implications.

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Facts

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Ferdinand W. Roebling, Jr. died in 1936, leaving a will naming his sons, Joseph and Ferdinand III, as executors, and his wife, Ruth, as beneficiaries, each receiving one-third of the residuary estate. By 1940, most of the estate had been distributed, except for 50,000 shares of Class B preferred stock in a bank acquired to help the bank during the depression. The executors retained this stock, hoping it would be retired at its par value of $1,000,000. The estate reported dividends received on this stock as income for tax purposes from 1941-1948. Ruth M. Roebling requested distribution of her share of the bank stock, but the executors refused.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in the beneficiaries' income taxes, asserting that the dividend income should be taxed to them, not the estate. The beneficiaries contested this determination, arguing that the estate was still in administration due to the retained bank stock. The Tax Court consolidated the proceedings.

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Issue(s)

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Whether the income arising from dividends on Class B preferred stock of the Bank should be taxed to the decedent's estate or to the residuary beneficiaries.

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Holding

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Yes, the income should be taxed to the beneficiaries because the period of administration or settlement of the estate expired before any of the taxable years in question, and the income was currently distributable.

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Court's Reasoning

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The court reasoned that the estate's administration had been unduly prolonged. While Reg. 111, section 29.162-1 allows for the period required to perform ordinary administrative duties (collection of assets, payment of debts/legacies), the court found that retaining the bank stock was not part of these duties. The court stated, "An executor cannot extend the period of administration by engaging in activities which are not part of his administrative duties." The court rejected the argument that the stock was held to recoup a debt, finding that the stock purchase was an investment, not a loan. The court distinguished this case from others where liabilities remained or state court oversight existed. Since the stock could have been distributed, and the beneficiaries could have collectively decided how to vote the stock, the income was deemed

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