18 T.C. 836 (1952)

A contingent remainder to a qualified charity is deductible from the gross estate under 26 U.S.C. § 812(d) if its present value can be reliably determined using accepted actuarial methods.

Summary

The Estate of Louis Sternberger sought a charitable deduction on its estate tax return for a contingent remainder interest passing to charity. The remainder was contingent on the decedent's daughter dying without descendants and certain collateral relatives not surviving. The Commissioner disallowed the deduction, arguing that the value was too speculative. The Tax Court held that the contingent remainder could be valued using actuarial methods and was therefore deductible. Additionally, the Court found that brokerage and legal fees related to the sale of estate property were deductible as administrative expenses.

Facts

Louis Sternberger died in 1947, leaving a will that created a trust. The trust's income was to be paid to his wife and daughter for their joint lives, with the principal passing to the daughter's descendants upon their death. If the daughter died without descendants, half of the principal would go to collateral relatives and half to specified charities. If no collateral relatives survived, the entire principal would go to the charities. The estate claimed a charitable deduction for the present value of the contingent remainder interest passing to the charities.

Procedural History

The Commissioner of Internal Revenue disallowed the claimed charitable deduction, arguing that the value of the contingent remainder was too speculative to be reliably determined. The Estate appealed this determination to the Tax Court.

Issue(s)

1. Whether a deduction should be disallowed for a contingent remainder to charity because the present value of the charitable bequests is too speculative and tenuous to be deductible.

2. Whether brokerage commissions and legal fees incurred in selling estate property are deductible as administrative expenses under 26 U.S.C. § 812(b)(2).

Holding

1. No, because the contingent remainders to charitable organizations can and have been valued by competent actuarial methods.

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2. Yes, because the expenses were properly allowed as administration expenses under New York State law and are deductible under 26 U.S.C. § 812(b).

Court's Reasoning

The court distinguished this case from *Humes v. United States*, 276 U.S. 487, and *Robinette v. Helvering*, 318 U.S. 184, where deductions were denied due to the speculative nature of the valuations. Here, the estate presented reliable actuarial testimony to estimate the value of the contingent remainder using established methods. The court relied on *Estate of Pompeo M. Maresi*, 6 T.C. 582 (1946), aff'd, 156 F.2d 929 (2d Cir. 1946), which allowed a deduction for payments to a decedent's wife until she died or remarried, based on actuarial tables. Regarding the administrative expenses, the court noted that the expenses were properly allowed as administration expenses under New York law and, accordingly, are deductible under 26 U.S.C. § 812 (b).

Regarding the charitable deduction, the court emphasized that the estate "presented reliable and conservative actuarial testimony to estimate the value of the contingent remainder to charity at the date of decedent's death to support his deduction of $179,154.19. We do not feel that we are at liberty to disregard this testimony of competent actuaries who have made their computations in accordance with what appear to be well recognized actuarial methods."

Practical Implications

This case provides guidance on how to value contingent charitable bequests for estate tax purposes. It confirms that if a contingent interest can be valued using accepted actuarial methods and reliable data, a deduction is permissible. It clarifies that the mere existence of contingencies does not automatically render a charitable bequest too speculative to be deductible. The case also affirms that administrative expenses, such as brokerage and legal fees, are deductible if allowed under the laws of the jurisdiction where the estate is administered. The case highlights the importance of expert actuarial testimony in establishing the value of complex or contingent interests for tax purposes and distinguishing the case from others where the valuations were considered too speculative.

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