18 T.C. 887 (1952)

When valuing a charitable remainder interest in an estate where the life tenant has the right to invade the corpus, the value of the charitable bequest must be calculated subject to the intervening life estate and the potential for corpus invasion.

Summary

Helen Stow Duker's estate sought a larger charitable deduction for a remainder interest bequeathed to charity. The will established a trust providing a life estate for Duker's brother, with a guaranteed minimum annual payment of $10,000. If the trust income was insufficient, the corpus could be invaded. The remainder of the trust would pass to charity upon the brother's death. The IRS calculated the charitable deduction by factoring in the possibility of corpus invasion, resulting in a lower deduction than the estate claimed. The Tax Court upheld the IRS's method, emphasizing the need to account for the potential depletion of the charitable remainder due to the life tenant's right to invade the corpus.

Facts

Helen Stow Duker died on January 4, 1948, leaving a will that devised the residue of her estate in trust. Her brother, John, was to receive the entire net income from the trust for his life, with a minimum annual payment of $10,000, even if it required invading the trust corpus. Upon John's death, the remaining trust corpus was to be distributed to designated charities. At the time of Duker's death, John was 71 years old. The estate tax return claimed a charitable deduction of $61,277.74, based on the estimated value of the charitable remainder after John's life estate.

Procedural History

The executors of the estate filed a federal estate tax return, claiming a charitable deduction. The Commissioner of Internal Revenue determined a deficiency in the estate tax liability, allowing a smaller deduction for the charitable remainder. The estate petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the Commissioner erred in determining the value of the charitable residue under the decedent's will, allowable as a deduction for estate tax purposes, by calculating the value subject to the intervening life estate and the potential for corpus invasion.

Holding

No, because the proper method for valuing a charitable remainder interest, where there is a life estate with the possibility of corpus invasion, is to compute the value

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of the charitable bequest subject to the intervening life estate. The estate failed to demonstrate a better, more acceptable method of valuation.

Court’s Reasoning

The court reasoned that the estate’s method of calculating the charitable deduction failed to adequately account for the possibility that the trust corpus would be invaded to meet the life tenant’s guaranteed annual income. The court emphasized that because the trust corpus could be invaded each year, the charitable residue would be reduced. The court rejected the estate’s argument that a remainder factor should be applied to the initial residue amount without considering the potential for invasion. The court distinguished cases cited by the estate, noting that those cases involved situations where the power to invade the corpus was limited by standards and the probability of invasion was remote. Here, the will mandated corpus invasion if necessary to meet the $10,000 annual payment requirement. The court agreed with the Commissioner’s method of calculating the present worth of the remainder based on actuarial tables and the possibility of corpus invasion. The court stated, “The method used by respondent in his determination is based on a computation of the value of the charitable remainder *subject* to the intervening life estate and since that is the proper approach and since petitioners fail to establish any better acceptable method, the result obtained by respondent’s method is approved.”

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