18 T.C. 914 (1952)

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When valuing a life estate for estate tax purposes, known facts about the life tenant's health and actual life expectancy at the time of the decedent's death should be considered instead of relying solely on actuarial tables.

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Summary

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The Tax Court addressed the estate tax deficiency of Nicholas Murray Butler, focusing on the valuation of a charitable remainder. The court held that the widow's life estate should be valued based on her known terminal illness at the time of decedent's death, not actuarial tables, because her actual life expectancy was less than a year. The court also determined that the deduction for a charitable remainder should be reduced only by the amount that violated New York's Decedent Estate Law, as determined by a Surrogate's Court decree, not by an independent calculation by the Commissioner.

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Facts

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Nicholas Murray Butler died on December 7, 1947, leaving a will that created a trust with income to his wife, Kate Butler, for life, and the remainder to Columbia University. The will also requested a monthly allowance for Katherine V.R. Schuyler from a portion of the bequest to Columbia University. At the time of Nicholas's death, Kate was 83 years old and suffering from incurable cancer, with a life expectancy of less than one year. The will also faced a potential violation of Section 17 of the New York Decedent Estate Law, which limits bequests to charity to one-half of the estate in certain circumstances.

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Procedural History

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The executors of Nicholas Murray Butler’s estate filed an estate tax return. The Commissioner of Internal Revenue determined a deficiency. The executors petitioned the Tax Court. A Surrogate’s Court in New York had previously approved a compromise agreement determining a violation of Section 17 of the New York Decedent Estate Law. The time for appeal had expired.

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Issue(s)

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1. Whether the full amount of a specific bequest to a charitable legatee is deductible when the testator requests a monthly allowance be paid to an individual from the bequest?

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2. Whether actuarial expectations or known facts at the time of death should be used to value a life estate preceding a charitable remainder?

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3. Whether the IRS is bound by a state court decree regarding a violation of state law in valuing a charitable remainder?

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Holding

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1. No, because the value of the monthly allowance should be deducted from the bequest when calculating the deduction.

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2. Known facts should be used because actuarial tables are evidentiary only, and must give way to proven facts showing a shorter life expectancy.

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3. Yes, because the deduction should be reduced only by the amount found to violate state law by the state court decree.

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Court’s Reasoning

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Regarding the life estate valuation, the court relied on *Estate of Nellie H. Jennings, 10 T.C. 323*, stating, “The United States Supreme Court has said that in making a deduction for a remainder interest bequeathed to charity… ‘the value thereof must be determined from data available at the time of the death of decedent.'” Since Kate Butler’s terminal illness was known at the time of her husband’s death, her life expectancy was factually limited to less than one year, overriding the actuarial tables’ projections. The court found the facts here “much like the facts” in *Estate of Denbigh, 7 T.C. 387*, where it had previously ruled that established mortality tables “must give way to the proven facts which show a less life expectancy.” Regarding the New York Decedent Estate Law, the court emphasized that Section 17 makes bequests exceeding the statutory limit merely

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