19 T.C. 493 (1952)

A charitable deduction is not allowed for estate tax purposes where a trust primarily benefits private individuals, or where the value of a residual charitable bequest is not ascertainable at the time of death due to potential invasion of the trust corpus for private purposes.

Summary

The Tax Court denied an estate tax deduction for a claimed charitable bequest. The decedent's will created a trust to fund scholarships for his grandnieces and grandnephews, with the remainder to Western Maryland College. The court held that the primary trust was private, not charitable, and that the value of the bequest to the college was unascertainable at the time of death because the trust corpus could be invaded for scholarships and the support of the decedent's sisters. The court emphasized that the taxpayer failed to prove the amount that would reach the charity could be accurately calculated.

Facts

Philip Dorsey died in 1945, leaving a will that established a trust. The trust's income, and principal if needed, was to fund scholarships for Dorsey's grandnieces and grandnephews at Western Maryland College. The will also directed the trustees to pay certain expenses for the benefit of designated individuals during their lifetimes, including maintaining a home for his sisters and paying for its upkeep. Upon termination of the trust (20 years after the death of the last surviving niece or nephew), the remaining assets were to be given to Western Maryland College for scholarships, with preference given to Dorsey's relatives.

Procedural History

The executrix of Dorsey's estate filed an estate tax return claiming a charitable deduction for the value of the residuary estate bequeathed for educational purposes. The Commissioner of Internal Revenue disallowed the deduction, resulting in a deficiency assessment. The executrix then petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the trust created to provide scholarships for the decedent's grandnieces and grandnephews qualifies as a charitable trust for estate tax deduction purposes.

2. Whether the residual bequest to Western Maryland College had an ascertainable value as of the date of the decedent's death, given the possibility of invasion of the trust corpus for private purposes.

Holding

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1. No, because the trust's primary purpose was to benefit a limited group of private individuals (the decedent's relatives), lacking the indefiniteness of beneficiaries characteristic of a charitable trust.

2. No, because the extent of the potential invasion of the trust corpus for private uses (scholarships for relatives and support for the decedent's sisters) could not be reliably determined at the time of death, making the value of the residual bequest to the college unascertainable.

Court's Reasoning

The court reasoned that the trust for grandnieces and grandnephews was a private trust, not a charitable one, as it primarily benefited a defined group of individuals. It distinguished cases where a general class of beneficiaries was designated, with a preference accorded to relatives. The court emphasized that charitable trusts require uncertainty and indefiniteness of beneficiaries. The court then addressed the deductibility of the residual bequest to Western Maryland College, applying the principle that a charitable bequest of a trust remainder is deductible only if its value is ascertainable at the date of death. The court found that the potential invasion of the corpus for private purposes was too uncertain to allow for a reliable valuation. The court noted, "*the taxpayer has the burden of establishing that the amounts which will either be spent by the private beneficiary or reach the charity are thus accurately calculable.*" The court found this burden was not met, pointing to the indefinite expenses for supporting the decedent's sister, the uncertain number of future grandnieces and grandnephews who might receive scholarships, and the possibility that trust income would be insufficient to cover these expenses.

Practical Implications

This case illustrates the importance of careful drafting when creating trusts with both private and charitable beneficiaries. To ensure a charitable deduction for a residual bequest, the trust instrument must contain clear, objective standards limiting the potential invasion of the corpus for private purposes. The case emphasizes the taxpayer's burden to prove that the value of the charitable interest is ascertainable at the time of death. Practitioners should advise clients to consider the potential for changing circumstances (e.g., healthcare costs, number of beneficiaries) that could affect the amount ultimately passing to charity. Later cases cite *Dorsey* for the proposition that a charitable deduction will be denied if the potential for invasion of a trust corpus makes the ultimate value of the charitable gift unascertainable. This case remains relevant for estate planning involving charitable bequests subject to prior private interests.

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