19 T.C. 1162 (1953)

For federal income tax purposes, the period of estate administration concludes when the executor or administrator has performed all ordinary duties, regardless of state court orders that prolong the estate's existence.

Summary

The Tax Court determined that the estate of Alfred LeFiell was no longer in administration for federal income tax purposes after May 19, 1944, despite a later state court order stating otherwise. The court reasoned that all ordinary administrative duties (payment of debts, taxes, and settlement of claims) had been completed by that date. The court emphasized that the estate's continuing obligation to make annuity payments to a beneficiary was not sufficient justification to prolong the administration period for tax purposes, and the income was taxable to the heir. The court also addressed the statute of limitations issue and found that because the petitioner had omitted more than 25% of gross income in 1944 and 1945, the 5-year statute of limitations applied.

Facts

Alfred LeFiell died in 1942, leaving a will that bequeathed his interest in LeFiell Company to his children, Aileen Power and Sidney LeFiell (petitioner). Sidney was appointed administrator of the estate. The estate's primary asset was a 60% interest in LeFiell Company, a partnership with Sidney. By early 1943, all claims against the estate had been paid. Aileen and another son, Cecil, who was excluded from the will, made claims against the estate. Sidney settled these claims, agreeing to pay Aileen a sum of money, and agreeing to pay Cecil's mother, Ella, $150/month for life. The state probate court approved these settlements on May 19, 1944.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Sidney LeFiell's income tax for 1944, 1945, and 1946, arguing that the estate's administration had concluded before 1944 and that the estate's income was taxable to Sidney. The Tax Court upheld the Commissioner's determination that the estate was no longer in administration after May 19, 1944, but disagreed that it ended before January 1, 1944. LeFiell appealed to the Tax Court.

Issue(s)

1. Whether the period of administration of the LeFiell estate extended through the tax years 1944, 1945 and 1946 for federal income tax purposes, or whether it terminated at an earlier date?
2. Whether the 5-year period of limitations applies to the years 1944 and 1945 under section 275(c) of the Internal Revenue Code?

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Holding

1. No, the period of administration ended on May 19, 1944, because all ordinary duties pertaining to the administration, such as collecting assets and paying debts and legacies, were completed by that date.
2. Yes, the 5-year period of limitations applies because the petitioner omitted more than 25% of gross income in both 1944 and 1945.

Court’s Reasoning

The court relied on Treasury Regulation § 29.161-2, which defines the period of administration as the time

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