***Estate of Yantes v. Commissioner*, T.C. Memo. 1956-223**

The "previously taxed property" deduction under Section 812(c) of the Internal Revenue Code is strictly construed to require that the decedent must have received the property from the prior decedent's estate, not merely that the property was taxed in the prior decedent's estate.

Summary

Anna Yantes created a trust retaining income for life, with a testamentary power of appointment for her son Edmond. Edmond exercised this power in his will, and his estate paid estate tax on the trust assets. When Anna died shortly after, her estate claimed a "previously taxed property" deduction for these same assets. The Tax Court disallowed the deduction, holding that Section 812(c) requires the decedent to have received the property from the prior decedent, which was not the case here as Anna originally owned the property. The court refused to deviate from the plain language of the statute despite arguments about Congressional intent to prevent double taxation within a short period.

Facts

In 1935, Anna Yantes created an irrevocable trust, naming a bank as trustee. She retained the income from the trust for her life, and granted her son, Edmond, a general testamentary power of appointment over the trust corpus. Edmond died testate on April 8, 1949, and in his will, he exercised the power of appointment in favor of his wife and children. The value of the trust assets, minus the value of Anna's life estate, was included in Edmond's gross estate and subjected to federal estate tax. Anna Yantes died intestate on November 20, 1950. Her estate tax return included the value of the trust assets and claimed a deduction for previously taxed property under Section 812(c) of the Internal Revenue Code, arguing that the trust assets had been taxed in Edmond's estate within five years prior to her death.

Procedural History

The Commissioner of Internal Revenue disallowed the claimed deduction for previously taxed property. Anna Yantes' estate petitioned the Tax Court for review of the Commissioner's determination.

Issue(s)

1. Whether the "previously taxed property" deduction under Section 812(c) of the Internal Revenue Code is applicable when the decedent (Anna) created a trust and granted a power of appointment to a prior decedent (Edmond), who exercised that power, resulting in estate tax in the prior decedent's estate, and the same trust assets are subsequently included in the decedent's estate.

Holding

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1. No. The Tax Court held that the "previously taxed property" deduction was not applicable because Section 812(c) requires that the property included in the decedent's estate must have been received by the decedent from the prior decedent. In this case, Anna did not receive the property from Edmond; rather, Edmond's estate was taxed on property over which he held a power of appointment granted by Anna.

Court's Reasoning

The Tax Court focused on the plain language of Section 812(c), which allows a deduction for property "received by the decedent from…such prior decedent by gift, bequest, devise, or inheritance." The court noted that while Congress intended to prevent double taxation within short periods, the statute's wording clearly requires the second decedent to have *received* the property from the first. The court stated, "if the plain words of the statute are to be followed, it is apparent that the Commissioner did not err in disallowing this deduction." Acknowledging the petitioner's argument that the intent of Congress should override the literal wording to avoid an inequitable result, the court quoted *Church of the Holy Trinity v. United States*, stating, "It is a familiar rule that a thing may be within the letter of the statute and yet not within the statute, because not within its spirit nor within the intention of its makers." However, the court found no legislative history or other aids to construction that would justify deviating from the statute's clear language in this case. The court emphasized that Congress was aware of powers of appointment (Section 811(f)) when enacting Section 812(c) and specifically addressed situations where a decedent receives property through the exercise of a power, but not the reverse situation presented in this case. The court concluded that any expansion of the deduction to cover this scenario would require legislative amendment, not judicial interpretation. The court dismissed a prior case, *Andrew J. Lyndon v. United States*, which had reached a contrary conclusion, as unpersuasive because it failed to address the statutory language requiring receipt of property.

Practical Implications

Estate of Yantes underscores the importance of adhering to the plain language of tax statutes, even when doing so may appear to contradict the broader purpose of a provision. For legal professionals, this case serves as a reminder that the "previously taxed property" deduction under Section 812(c) has a specific and limited scope. It is not simply a general mechanism to prevent double taxation within five years; it requires a demonstrable transfer of property from the prior decedent to the current decedent. The case clarifies that the deduction is unavailable when the sequence of events is reversed – where the decedent originally owned the property and granted a power of appointment to the prior decedent, even if the exercise of that power resulted in estate tax in the prior decedent's estate. Practitioners must meticulously trace the chain of ownership and transfer to determine eligibility for the Section 812(c) deduction and cannot rely solely on the principle of avoiding double taxation. This case highlights the judiciary's reluctance to expand tax deductions beyond the

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explicit terms of the statute, absent clear legislative intent to the contrary.

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