22 T.C. 606 (1954)

A settlement payment made by an executor to a surviving spouse to compromise the spouse's claim against the estate and permit the will to be probated without contest is deductible from the gross estate as a marital deduction.

Summary

In *Estate of Barrett v. Commissioner*, the U.S. Tax Court addressed whether a payment made to a surviving spouse in settlement of claims against the decedent's estate qualified for the marital deduction. The decedent and her husband had entered into an antenuptial agreement waiving spousal rights. After the decedent's death, the husband asserted claims against the estate, arguing the antenuptial agreement was invalid and that he was entitled to a portion of the estate under Missouri law. To avoid a will contest, the executor settled with the husband. The court held that the settlement payment qualified for the marital deduction, even though the payment was made before formal litigation, because the husband's claims were made in good faith and there was a valid threat to the testamentary plan.

Facts

Gertrude P. Barrett died in 1948, survived by her husband, William N. Barrett. Before their marriage, Gertrude and William had an antenuptial agreement where each waived any rights to the other's property. Gertrude also created a trust that did not initially provide for her husband, but she later modified it to give him a share of the income. Subsequently, she removed the provision for her husband from the trust. After her death, William, advised by counsel, claimed an interest in her estate, arguing that the trust was invalid and the antenuptial agreement unenforceable. The executor, Alroy S. Phillips, settled with William for $10,250 to avoid a will contest. The Probate Court approved the settlement.

Procedural History

The executor filed an estate tax return, claiming the settlement payment as a marital deduction. The Commissioner of Internal Revenue disallowed the deduction. The executor petitioned the U.S. Tax Court, which reviewed the case and the relevant facts to determine whether the settlement payment qualified for the marital deduction under Section 812(e) of the Internal Revenue Code.

Issue(s)

Whether a payment made to a surviving spouse in settlement of claims against the decedent's estate qualifies for the marital deduction, even though it was made before formal litigation and without a will contest.

Holding

Yes, because the settlement payment was made in good faith to resolve the surviving spouse's claims against the estate, and those claims were based on a reasonable belief that the spouse had enforceable rights.

Court's Reasoning

The court relied on the Supreme Court's decision in *Lyeth v. Hoey, 305 U.S. 188 (1938)*. In *Lyeth*, the Supreme Court held that property received by an heir in settlement of a will contest was acquired by inheritance and thus exempt from income tax. The court in *Estate of Barrett* extended this principle to the estate tax context. The court reasoned that the payment to Barrett was made because of his legal relationship to his wife. "It is obvious, as it was in the case of the heir in Lyeth v. Hoey, that the only reason that Barrett had any standing to claim a share of his wife's estate was his legal relationship to her."

The court rejected the Commissioner's argument that the marital deduction was not available because there was no will contest. The court emphasized that the settlement was made in good faith to avoid litigation, and the claims were based on a colorable basis under Missouri law. The Court stated, "A will contest can exist without full blown legal proceedings and we have no doubt that the executor in this case recognized the threat made on his sister's will."

Practical Implications

This case provides guidance on the availability of the marital deduction when a settlement is reached with a surviving spouse to resolve claims against an estate. It clarifies that a formal will contest is not a prerequisite for the marital deduction. It emphasizes the importance of good faith, arm's-length negotiations, and the existence of a reasonable basis for the surviving spouse's claims. This case suggests that attorneys should consider the potential for settlement as a legitimate strategy to secure the marital deduction, even if a will contest has not been formally initiated. Later cases have cited this case to determine whether settlements qualify for the marital deduction.

