Estate of Rosalie Cahn Morrison, Deceased, E. A. Morrison, E. E. Morrison and E. H. Morrison, Executors, Petitioner, v. Commissioner of Internal Revenue, Respondent, 24 T.C. 965 (1955)

When a will does not direct otherwise, and state law does not provide for apportionment, estate taxes are paid from the residuary estate, and the marital deduction is not reduced by a pro rata share of the tax.

Summary

In this case, the United States Tax Court addressed whether the marital deduction in an estate should be reduced by a proportionate part of the federal and state estate taxes when the will did not specify how estate taxes should be paid. The court held that, under Mississippi law (the state of the decedent's residence), the estate taxes were to be paid from the residuary estate, and the marital deduction, representing the value of assets bequeathed to the surviving spouse, was not to be reduced by any part of these taxes. The court emphasized that, absent specific provisions in the will or state statutes, estate taxes are generally a charge against the residuary estate.

Facts

Rosalie Cahn Morrison, a Mississippi resident, died testate in 1951. Her will was probated in Mississippi. Her husband, E.A. Morrison, received a specific bequest of stock in Standard Drug Company. The residue of her estate was left to her two sons. The executors paid both federal and Mississippi estate taxes from a bank account that formed part of the residuary estate. The Commissioner of Internal Revenue reduced the marital deduction claimed by the estate by a pro rata share of these taxes, which was calculated as the portion of the estate tax deemed attributable to the specific bequest of stock.

Procedural History

The executors filed a federal estate tax return and paid the tax. The executors also filed and paid a Mississippi estate tax return. The Commissioner of Internal Revenue issued a notice of deficiency, increasing the taxable estate by reducing the marital deduction. The executors petitioned the United States Tax Court to dispute the deficiency, arguing that the marital deduction should not be reduced by any portion of the estate taxes.

Issue(s)

Whether, in computing the marital deduction under Section 812(e)(1)(A) of the Internal Revenue Code of 1939, the value of the capital stock specifically bequeathed to the surviving spouse should be reduced by a proportionate part of the federal and state estate taxes paid by the executors from the residuary estate.

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Holding

No, because under Mississippi law, the estate taxes were payable out of the residuary estate and did not reduce the value of the property passing to the surviving spouse for the marital deduction.

Court's Reasoning

The court began by acknowledging that the law of the state where the estate is administered is controlling in determining the ultimate impact of the federal estate tax, citing *Riggs v. Del Drago*, 317 U.S. 95 (1942). The court then examined Mississippi law and found no statute requiring apportionment of estate taxes. Absent such a statute or a specific direction in the will, the court applied the general rule that estate taxes are a charge against the residuary estate. The court referenced several Mississippi Supreme Court cases to support the principle that the residuary estate is what remains after debts, expenses, and specific bequests are satisfied. The court distinguished the cases cited by the Commissioner, finding them not controlling because they involved different facts or were from states with different laws (including apportionment statutes). The court explicitly stated that the payment of the federal and state taxes was to be treated the same way. The court also quoted *Y.M.C.A. v. Davis*, 264 U.S. 47 (1924) to illustrate its view of the matter, finding that because the will contained no directions on the matter, it had to be presumed the intent of the testator was to follow the default rule of paying taxes from the residuary estate. The court concluded that the executors correctly paid the taxes from the residuary estate.

Practical Implications

This case underscores the importance of drafting wills that clearly address the payment of estate taxes. In jurisdictions lacking apportionment statutes, or where the will is silent, estate taxes will typically be paid from the residuary estate, potentially reducing the value of bequests to residuary beneficiaries. Attorneys should advise clients on the potential impact of estate taxes and include specific instructions in the will regarding how taxes are to be paid to avoid unintended consequences. This case is often cited to show the default rule of paying estate taxes from the residuary estate when the governing law does not have an apportionment statute. Future cases involving marital deductions or the interplay of federal estate tax law and state probate law would likely consider this case. The court directly referred to Sec. 812(e)(1)(E)(i) which states that for the purposes of the marital deduction, there shall be taken into account the effect which any estate tax "has upon the net value to the surviving spouse."

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