25 T.C. 669 (1955)

When a will directs that estate taxes be paid from the principal of the estate, the marital deduction is calculated after deducting the federal estate tax chargeable to the estate.

Summary

In *Estate of Juster v. Commissioner*, the U.S. Tax Court addressed whether the value of a residuary trust for a surviving spouse, and thus the marital deduction, should be calculated before or after deducting federal estate taxes. The decedent's will directed that all taxes be paid from the principal of his estate. The court held that this language clearly indicated the testator's intent that estate taxes be paid before the distribution of the residue, including the portion going to the surviving spouse. Consequently, the marital deduction was to be computed after deducting the federal estate tax chargeable to the estate. This decision turned on the interpretation of the will under New York law and reinforced the importance of clear testamentary language regarding tax apportionment.

Facts

Charles Juster, a New York resident, died in 1949 leaving a will. The will directed that the residue of his estate be divided into two parts: one in trust for his wife, Minnie, with a power of appointment, and the other to his children. The will stated that all bequests and devises were to be free from estate taxes, and these taxes were to be paid from the principal of the estate. The executor of the estate sought to determine the proper calculation of the marital deduction for estate tax purposes.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The executor challenged this determination, claiming that the value of the residuary trust for the wife, and thus the marital deduction, should not be reduced by any portion of the federal estate tax. The case was heard by the U.S. Tax Court, which considered the arguments and the interpretation of the will under New York law.

Issue(s)

1. Whether the value of the residuary trust to the decedent's wife, for the purpose of calculating the marital deduction, should be computed without reduction for any part of the federal estate tax chargeable to the estate.

Holding

1. No, because the will's directive that estate taxes be paid from the principal of the estate clearly indicated the testator's intent that such taxes be paid before the distribution of the residuary estate, including the portion benefiting the surviving

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spouse.

Court’s Reasoning

The court’s reasoning centered on the interpretation of the decedent’s will, specifically the clause directing that all legacies, bequests, and devises be free from taxes, with such taxes paid out of the

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