25 T.C. 1301 (1956)

When calculating the deduction for previously taxed property under Section 812(c) of the 1939 Internal Revenue Code, the value of the property must be reduced by the portion of the prior decedent's estate tax attributable to that property.

Summary

In 1931, the decedent's father transferred stock to himself and the decedent as joint tenants with rights of survivorship. Upon the father's death in 1947, the decedent became the sole owner of the stock. The father's estate paid federal estate taxes, and the decedent became liable for a portion of these taxes attributable to the jointly held stock. After the decedent's death in 1949, her executor paid her share of the father's estate tax. The issue was whether the decedent's estate was entitled to a deduction for previously taxed property under the Internal Revenue Code based on the full value of the stock, or the value of the stock reduced by the estate taxes. The Tax Court held that the deduction should be reduced by the estate taxes paid by the decedent's estate, reflecting the actual value of the asset transferred.

Facts

1. In 1931, George A. Whiting transferred 3,800 shares of stock in Standard Wholesale Phosphate and Acid Works, Inc. to himself and his daughter, Eleanor G. Plessen, as joint tenants with rights of survivorship.

2. George A. Whiting died testate on September 7, 1947, a resident of Maryland.

3. Due to stock dividends, the number of Standard shares increased to 4,009 at the time of Whiting's death.

4. The value of the shares at the time of Whiting's death was $168,378.

5. Whiting's will did not provide against apportionment of estate taxes. The portion of Whiting's estate taxes attributable to the Standard shares, for which Eleanor was liable, was $51,482.49.

6. Eleanor Plessen died on September 1, 1949.

7. Eleanor's executor paid the $51,482.49 in estate taxes on August 30, 1951.

8. The estate claimed a deduction for previously taxed property based on the full value of the shares.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in estate tax, reducing the deduction for previously taxed property by the amount of estate taxes attributable to the stock. The petitioner (Plessen's estate) contested this decision, leading to the case in the United States Tax Court.

Issue(s)

1. Whether the Estate of Eleanor G. Plessen is entitled to a deduction for property previously taxed, as provided in section 812 (c) of the 1939 Code.

2. If so, whether the measure of the deduction is the full value of the stock, or the value of the stock minus the portion of federal estate taxes of the prior decedent attributable to the stock.

Holding

1. Yes, the Estate of Eleanor G. Plessen is entitled to a deduction for previously taxed property.

2. No, the deduction is limited to the value of the stock less the federal estate taxes attributable to the stock.

Court's Reasoning

The court relied on Section 812(c) of the 1939 Code, which provides a deduction for property previously taxed within five years. The court found that the jointly held stock was properly included in Whiting's gross estate under Section 811(e) of the 1939 Code because it constituted property held as joint tenants. Because the stock was part of Whiting's gross estate and the property qualified for a deduction, the court focused on the valuation method. The court reasoned that the value of the property received by Eleanor from her father's estate was its net value after deducting the estate taxes attributable to it. The court cited prior cases that supported the valuation of previously taxed property as the net value after considering any taxes paid by the decedent related to that property.

The court stated: "We can see no reason why the Standard shares which so qualify as previously taxed property under section 812 (c) should be valued any differently from any other property similarly qualifying for the deduction provided for in that section."

Practical Implications

This case clarifies how to calculate the deduction for previously taxed property when joint tenancy with survivorship rights is involved. It demonstrates that the value of the previously taxed property is reduced by estate taxes paid by the second decedent's estate, which is consistent with the net value actually received by the subsequent decedent and included in their estate. In estate planning, this ruling means that when considering a previously taxed property deduction, the attorney must account for any estate taxes paid on the inherited property to accurately determine the deduction’s value. The decision reinforces the principle that the deduction should reflect the net value of the property after considering all relevant tax liabilities. This understanding impacts the planning for and the valuation of estates that involve property previously subjected to estate tax within the statutory timeframe.

