Estate of Elizabeth L. Audenried, Deceased, A. Robert Bast, Executor, Petitioner, v. Commissioner of Internal Revenue, Respondent, 26 T.C. 120 (1956)

An estate can deduct executor's commissions as a Federal estate tax expense, up to the amount approved by the relevant court of jurisdiction, even if this exceeds the amount allowed by the state for inheritance tax purposes. Further, bequests to religious organizations for the maintenance of a cemetery and to a bar association in trust for the preservation of books in its law library are deductible as charitable contributions for Federal estate tax purposes.

Summary
The Estate of Elizabeth L. Audenried challenged the Commissioner's disallowance of several deductions from the Federal estate tax. The case involved executor's commissions, a bequest for perpetual care of a family burial lot, and a bequest for the preservation of books in the Philadelphia Bar Association's law library. The Tax Court determined that the estate could deduct the full amount of the executor's commissions approved by the Orphan's Court, the full amount of the bequest for the cemetery as partly funeral expense and partly a religious contribution, and the full amount of the bequest for the law library as a charitable contribution. The decision clarified the interplay between state law allowances and federal deductibility for estate tax purposes.

Facts
Elizabeth L. Audenried died on July 18, 1948, leaving a will. The gross estate was valued at $2,748,575.68. The estate sought to deduct $136,737.50 for executor's commissions, following a direction from the decedent specifying a 5% commission. The Orphan's Court of Philadelphia County approved this commission. The Commonwealth of Pennsylvania, however, limited the deduction for executor's commissions to $65,000 for state inheritance tax purposes. The estate also claimed deductions for two bequests: $49,593.24 for perpetual care of a family burial lot owned by a religious corporation (the Germantown Church of the Brethren) and $123,983.09 in trust for the preservation of books in the Philadelphia Bar Association's law library.

Procedural History
The executor filed a Federal estate tax return, claiming the disputed deductions. The Commissioner of Internal Revenue disallowed portions of the deductions, leading to a deficiency notice. The estate then filed a petition with the United States Tax Court, challenging the Commissioner's determinations.

Issue(s)
1. Whether the estate was entitled to deduct the full amount of the executor's commissions approved by the Orphan's Court, or whether the deduction was limited to the amount allowed by Pennsylvania for state inheritance tax purposes.
2. Whether the bequest for the perpetual care of the burial lot was deductible,

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and if so, whether the entire amount was deductible as a funeral expense and/or a religious contribution.
3. Whether the bequest for the preservation of the books in the law library was deductible as a charitable contribution.

Holding
1. Yes, because the amount of executor's commissions allowed by the Orphan's Court was the amount allowed by the law of the jurisdiction, and therefore deductible, even if it exceeded the state inheritance tax allowance.
2. Yes, because a portion of the bequest was deductible as a funeral expense and the remainder as a transfer for the use of a religious corporation for a religious purpose.
3. Yes, because the bequest was in trust to be used exclusively for literary and educational purposes.

Court's Reasoning
The court relied on Section 812(b)(2) of the Internal Revenue Code of 1939, which allows deductions for administration expenses “as are allowed by the laws of the jurisdiction under which the estate is being administered.” The court cited Regulations 105, Section 81.33, stating an executor could deduct commissions “in such an amount as has actually been paid,” provided it's “within the amount allowable by the laws of the jurisdiction.” The court referenced Fidelity-Philadelphia Trust Co. v. United States, which interpreted the regulation to mean that the Commissioner should allow the executor's fee as allowed by the laws of the jurisdiction and actually paid. Since the Orphan's Court approved the full amount of the commission, it was deductible, despite Pennsylvania's inheritance tax limitation. The court determined that the cemetery was owned and operated by a religious corporation. Consequently, the bequest was partly deductible as a funeral expense and partly deductible as a religious contribution under Section 812(d). The court also ruled that the bequest to the Philadelphia Bar Association in trust was deductible as a charitable contribution for literary and educational purposes.

Practical Implications
This case emphasizes that the amount of executor's fees deductible for federal estate tax purposes is determined by the allowance of the local court administering the estate, not necessarily by the state's inheritance tax rules. This means attorneys should ensure that executor's fees are properly approved by the relevant court, as that approval dictates the federal deduction. Additionally, the case demonstrates the potential for charitable deductions related to religious and educational purposes, even when those purposes may indirectly benefit individuals (such as lawyers). The case also suggests that practitioners carefully examine the specific language of bequests to ensure that they meet the requirements for charitable deductions under the relevant sections of the Internal Revenue Code. Furthermore, the court's reliance on the local Orphan's Court's decision underscores the importance of obtaining local court approval to bolster the strength of a tax deduction claim.

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