1 T.C. 826 (1943)

The value of a deceased partner's right to receive post-death partnership income, as stipulated in the partnership agreement, constitutes a property interest includible in the decedent's gross estate for federal estate tax purposes.

Summary

The case concerns the estate of a deceased attorney, Charles A. Riegelman, and whether the value of his estate's right to receive post-death partnership income from his law firm should be included in his gross estate for federal estate tax purposes. The Tax Court held that the right to receive such income, as established by the partnership agreement, was a valuable property right at the time of death and therefore includible in the gross estate. The court distinguished this case from prior precedents like *Bull v. United States*, emphasizing the contractual nature of the right and the absence of provisions that would continue the estate as a partner subject to partnership losses. The court found the post-death income represented a valuable chose in action that transferred to the estate at death.

Facts

Charles A. Riegelman, a senior partner in the law firm of Riegelman, Strasser, Schwarz, and Spiegelberg, died on July 20, 1950. The partnership agreement stipulated that the death of a partner would not dissolve the firm. The agreement further provided that the deceased partner's estate would receive a share of the firm's income for a specified period. This included the deceased partner's share of undistributed profits realized before death, profits after death attributable to work completed before death, and a share of post-death fees and profits attributable to work completed after death on both existing and new matters. The partnership owned minimal tangible assets, and the decedent made no capital contribution. The parties agreed that the value of the estate's right to receive the post-death income was $95,000.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax, arguing that the value of the right to receive post-death partnership income should have been included in the gross estate. The executors of the estate contested this determination in the Tax Court.

Issue(s)

Whether the value of the right of the estate to receive a share of partnership income earned after the decedent's death constitutes property in which the decedent had an interest at the time of his death, and is therefore includible in his gross estate under section 811(a) of the 1939 Code.

Holding

Yes, because the right to receive post-death partnership income, as specified in the partnership agreement, represents a valuable property right that the decedent possessed at the time of his death.

Court's Reasoning

The court addressed the central issue by focusing on whether the right to receive post-death partnership income was a property right includible in the gross estate under Section 811(a). The court distinguished this case from *Bull v. United States*. In *Bull*, the partnership agreement allowed the estate to continue as a partner, subject to potential losses, which was not the case here. Instead, the court characterized the right to receive post-death income as a contractual right and a valuable chose in action that passed from the decedent to the executors as part of his general assets. The court stated, "Since that right arose from the partnership agreement, it was contractual in nature." Because it had a stipulated fair market value, the court concluded that it represented a property interest under the statute, and therefore, the income should be included in the gross estate for federal estate tax purposes.

Practical Implications

This case has significant implications for estate planning, especially for partners in professional service firms. It underscores the importance of carefully drafting partnership agreements to clarify how post-death income will be treated for estate tax purposes. The ruling confirms that the value of any contractual right to receive post-death income can be subject to estate tax. This impacts how partnership interests are valued and the potential tax liability of an estate. This decision has influenced estate tax planning in similar situations and continues to be cited regarding valuation of intangible assets and contractual rights. It highlights the importance of considering all property rights, including those stemming from agreements, when assessing a decedent's gross estate and potential estate tax.

