Estate of Jaeger v. Commissioner, 27 T.C. 870 (1957)

When calculating the marital deduction for federal estate tax purposes, the effect of estate taxes on the surviving spouse's share is determined by state law.

Summary

In *Estate of Jaeger v. Commissioner*, the Tax Court addressed whether the marital deduction should be reduced by the surviving spouse's pro rata share of federal estate taxes. The court determined that Ohio law governed the calculation of the surviving spouse's share, which in this case meant the federal estate tax had to be deducted before determining the spouse's portion. The court followed the Ohio Supreme Court's latest decision, which held that federal estate taxes should be deducted before calculating the widow's share. The ruling affirmed the Commissioner's decision to reduce the marital deduction by the surviving spouse's share of the estate taxes and highlighted the importance of state law in federal estate tax calculations related to the marital deduction.

Facts

Rose Gerber Jaeger died testate, survived by her husband. Her husband renounced the will and elected to take pursuant to the Ohio Statute of Descent and Distribution, taking one-half of the estate. The estate filed a federal estate tax return claiming a marital deduction based on the surviving spouse's share, without reducing it by any portion of the federal estate taxes. The Commissioner determined the marital deduction should be reduced by the surviving spouse's pro rata share of the federal estate taxes.

Procedural History

The Commissioner issued a notice of deficiency, which the petitioner contested in the U.S. Tax Court. The Tax Court's decision is the subject of this brief.

Issue(s)

Whether the Commissioner correctly determined the marital deduction by reducing it by the surviving spouse's pro rata share of the federal estate tax.

Holding

Yes, because, under Ohio law, the federal estate tax must be deducted from the estate before determining the surviving spouse's share, which dictates the size of the marital deduction. The court deferred to the Ohio Supreme Court's interpretation of state law on this matter.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court relied on the language of Section 812(e)(1)(E) of the Internal Revenue Code of 1939, which provides that the effect of federal estate tax on the surviving spouse's share must be taken into account. The court determined that state law governs how this effect is determined. The court cited numerous cases and authorities to support its position. Because Ohio law dictated that federal estate taxes reduce the surviving spouse's share, the court affirmed the Commissioner's determination. The court found the Ohio Supreme Court's decision in *Campbell v. Lloyd* to be controlling and that the federal estate tax had to be deducted before computing the widow's share. The court rejected the petitioner's argument that the Ohio court had wrongly decided the case and that the intent of Congress was to achieve complete uniformity between common-law and community-property states.

Practical Implications

This case underscores the importance of considering state law when calculating the marital deduction for federal estate tax purposes. Attorneys should carefully analyze state statutes and relevant case law to determine how estate taxes are apportioned and how this impacts the surviving spouse's share. Failing to do so could result in an incorrect calculation of the marital deduction and, consequently, an inaccurate assessment of estate taxes. It highlights that the intent of Congress to provide uniformity isn't always fully realized due to variations in state laws. Later cases examining marital deduction calculations must account for state law on how to apportion estate taxes.

© 2025 SCOTUSreports.com. All rights reserved.