31 T.C. 522 (1958)

A remainderman who purchases the life income interests in a trust can amortize the cost of those interests over their remaining life expectancies.

Summary

The case concerns a tax dispute where the remaindermen of a trust purchased the life income interests of the other beneficiaries. The issue was whether the remaindermen could amortize the amounts paid for these interests over their remaining life expectancies for tax purposes. The Tax Court, following the precedent set in *Bell v. Harrison*, held that the remaindermen were entitled to amortize their costs over the life expectancies of the purchased life interests. The Court reasoned that the remaindermen effectively acquired a wasting asset and should be allowed to recover their investment through amortization, similar to a landlord's treatment of a lease buyout.

Facts

William N. Fry, Jr., and Milly Fry Walters were the remaindermen of a testamentary trust created by William W. Fischer. The trust held stock in Fischer Lime & Cement Company, and the will specified income distributions to several life beneficiaries. In 1949, Fry and Walters purchased the life income interests of the other beneficiaries. Following the purchase, the trust terminated, and the stock was distributed to Fry and Walters, making them the sole stockholders. Fry and Walters claimed deductions on their tax returns for the amortization of the costs of purchasing the income interests. The Commissioner of Internal Revenue disallowed these deductions, arguing that the purchase merged the interests, and the cost could only be recovered upon the sale or disposition of the stock.

Procedural History

The petitioners, William N. Fry, Jr., and Mable W. Fry, and William Stokes Walters and Milly Fry Walters, challenged the Commissioner's determination of deficiencies in their income taxes for the years 1952, 1953, and 1954. The cases were consolidated and heard before the United States Tax Court.

Issue(s)

Whether the remaindermen who purchased the life income interests in a trust can amortize the cost of the purchased interests over the remaining life expectancies of the income beneficiaries.

Holding

Yes, because the Tax Court followed the precedent established in *Bell v. Harrison*, holding that the petitioners could amortize the costs of purchasing the life interests

© 2025 SCOTUSreports.com. All rights reserved.

over the life expectancies of the beneficiaries.

Court’s Reasoning

The Tax Court relied heavily on the Seventh Circuit Court of Appeals decision in *Bell v. Harrison*, which presented a similar factual scenario. The court found the circumstances in *Bell* and the present case to be strikingly parallel. The court rejected the Commissioner’s argument that the purchase of the life interests merged with the remainder interest. The court determined that the remaindermen were purchasing a “wasting asset,” and should be allowed to amortize the cost of that asset over its remaining life. The court cited *Risko v. Commissioner* to illustrate the principle of allowing amortization of a terminable interest. The court noted that the petitioners were not purchasing the underlying stock but rather the income stream from the life interests, which had a limited duration. The court emphasized that the stock would eventually become the petitioners’ property, regardless of their purchase of the income interests.

Practical Implications

This case provides a clear precedent for remaindermen purchasing life income interests in trusts. Attorneys should advise clients who are remaindermen in similar situations that the cost of acquiring life interests is amortizable over the beneficiary’s life expectancy. This can significantly impact tax planning and the valuation of trust interests. It also suggests that when structuring transactions involving the purchase of terminable interests, the focus should be on the limited duration of the interest acquired and the possibility of amortization. Subsequent cases would likely follow the *Bell v. Harrison* precedent, reinforcing the rule.

© 2025 SCOTUSreports.com. All rights reserved.