Estate of Green v. United States, 30 T.C. 827 (1958)

A widow's allowance qualifies for the estate tax marital deduction if, under state law, it represents a vested right not terminated by the widow's death or remarriage; otherwise, it is a terminable interest.

Summary

The Estate of Green concerned whether a widow's allowance under Michigan law constituted a terminable interest, thus disqualifying it for the estate tax marital deduction. The Tax Court, following the mandate of the Court of Appeals for the Sixth Circuit, examined whether the allowance was subject to termination upon the widow's death or remarriage. The court held that, under Michigan law, the widow's allowance for one year in a lump sum was not terminable by her death or remarriage before payment. Therefore, the allowance qualified for the marital deduction, as it represented a vested right. The court also affirmed the applicability of the terminable interest rule to widow's allowances, but found the specific Michigan allowance at issue exempt from the rule.

Facts

The decedent died on May 24, 1952. His will devised the residuary estate to a trust, with the corpus distributable to his children upon the widow's death. On October 29, 1952, a Michigan court ordered an allowance of $10,000 per year, payable at $833.33 per month, for the widow's support for one year from the decedent's death. The estate paid the widow the lump sum of $10,000 on August 3, 1953. The widow died in 1954.

Procedural History

The case began in the Tax Court, where the estate initially claimed a marital deduction for the widow's allowance. The Tax Court denied the claim on the grounds that the allowance did not constitute property passing from the decedent. The Sixth Circuit Court of Appeals remanded the case back to the Tax Court, instructing it to address the question of whether the allowance constituted a terminable interest under the Internal Revenue Code. The Tax Court then issued a supplemental opinion.

Issue(s)

1. Whether the widow's allowance constituted a terminable interest within the meaning of Section 812(e)(1)(B) of the Internal Revenue Code of 1939.

2. Whether the terminable interest rule is applicable to a widow's allowance.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because under Michigan law, the widow's allowance for one year in a lump sum did not terminate or abate upon the death or remarriage of the widow prior to its payment, and so was not a terminable interest.

2. Yes, but since the allowance was not terminable, the rule was not applicable to disallow the deduction in this case.

Court's Reasoning

The court applied the "terminable interest rule" of Section 812(e)(1)(B) of the Internal Revenue Code of 1939 to determine if the widow's allowance qualified for the marital deduction. The court looked to Michigan law to ascertain the nature of the widow's allowance. Based on Michigan case law, specifically Bacon v. Perkins, 100 Mich. 183, and Isabell v. Black, 259 Mich. 100, the court found that the widow's right to the allowance was a vested right that was not lost by death or remarriage before the year's end. The court distinguished this situation from cases where state law provided for monthly payments that would cease upon the widow's death or remarriage. The court emphasized that, because the allowance was granted as a lump sum for the entire year and was not conditioned on her continued existence, it was not a terminable interest, even though the widow's receipt of the funds required a petition and court order. The court stated, "*As to the term for which the award was granted, it was for 1 year after the death of decedent and as to such a term the widow's right to an allowance was 'an absolute vested right.'*"

Practical Implications

This case emphasizes the importance of examining state law when determining whether a widow's allowance qualifies for the marital deduction. It clarified that a widow's allowance will qualify for the marital deduction if, under state law, it represents a vested right not terminated by the widow's death or remarriage. It also underscores that the form of the allowance matters; a lump-sum allowance is less likely to be considered terminable than one with periodic payments. Practitioners should be aware that, while the court here found that the widow's allowance qualified for the marital deduction, the court also held that the terminable interest rule is applicable to a widow's allowance and should analyze state law carefully to determine if a widow's allowance is indeed an asset of the widow's estate.

© 2025 SCOTUSreports.com. All rights reserved.