Madden v. Commissioner, 52 T. C. 845 (1969)

The basis of jointly held property acquired by a surviving joint tenant is not automatically stepped up to its fair market value at the time of the other tenant's death unless it can be shown that inclusion in the decedent's estate was required.

Summary

In Madden v. Commissioner, the Tax Court addressed whether the basis of stock held in joint tenancy should be stepped up to its value at the time of the decedent's death. Richard Madden included half the stock's value in his deceased wife's estate tax return, seeking a basis increase upon selling it. The court ruled that Madden failed to prove the stock's inclusion was required under estate tax rules, thus denying the basis step-up. This case underscores the importance of proving the necessity of estate inclusion for basis adjustments in jointly held property.

Facts

Richard and Anita Madden held 5,550 shares of Chicago Musical Instrument Co. stock as joint tenants. After Anita's death, Richard included half the stock's value in her estate tax return, electing the alternate valuation date of December 13, 1962, when the stock's value was $27. 50 per share. Richard then sold 3,500 shares in 1963, reporting a capital loss based on the $27. 50 basis. The IRS challenged this, asserting the basis should be the stock's cost, not its stepped-up value.

Procedural History

Richard and Margaret Madden filed a petition with the U. S. Tax Court to contest the IRS's determination of income tax deficiencies for 1963 and 1964. The IRS argued that the basis of the stock should remain at cost because the Maddens did not prove the stock's inclusion in Anita's estate was required. The Tax Court held that the petitioners failed to meet their burden of proof, affirming the IRS's position.

Issue(s)

1. Whether the basis of the stock held in joint tenancy by Richard and Anita Madden should be increased to its fair market value at the time of Anita's death under section 1014(a) and (b)(9) of the Internal Revenue Code of 1954?

Holding

1. No, because the petitioners failed to prove that any portion of the stock was required to be included in Anita Madden's gross estate under section 2040, thus the basis of the stock remains at its cost.

Court's Reasoning

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The court focused on the interpretation of “required” in section 1014(b)(9), which defines property acquired from a decedent as including property that must be included in the decedent’s gross estate. The court reasoned that the burden lies with the taxpayer to show that the property was required to be included in the estate. The Maddens did not provide evidence that Anita contributed to the stock’s purchase, a necessary element to establish the stock’s inclusion in her estate under section 2040. The court rejected the argument that the IRS must prove the stock was not required to be included, emphasizing that the taxpayer must demonstrate the necessity of inclusion for a basis step-up. The court also noted the absence of a final determination on the estate tax return, further supporting the need for the taxpayer to prove the stock’s required inclusion.

Practical Implications

This decision impacts how surviving joint tenants should handle estate and income tax planning. It clarifies that merely including property in an estate tax return does not automatically entitle a survivor to a basis step-up; the inclusion must be required under estate tax rules. Tax practitioners must advise clients to document the decedent’s contribution to jointly held assets to justify their inclusion in the estate. This case also affects estate administration, as executors must carefully consider the tax implications of including or excluding assets from an estate. Subsequent cases have followed this reasoning, reinforcing the need for clear evidence of required inclusion to obtain a basis adjustment.

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