***Estate of Leeds v. Commissioner, 54 T. C. 781 (1970)***

The court established that for marital deduction purposes, a bequest to a surviving spouse abates last, and bequests to an employee pension fund are not considered charitable under federal tax law.

**Summary**

In Estate of Leeds v. Commissioner, the Tax Court addressed the order of abatement for estate tax payments and the tax deductibility of bequests to an employee pension fund. Rudolph G. Leeds' will directed that his wife receive 50% of his adjusted gross estate, with the remainder going to a trust for Palladium-Item newspaper employees. The court held that the bequest to the wife abated last, ensuring the maximum marital deduction. Additionally, it ruled that the bequests to the Palladium Fund were not charitable under IRC section 2055, as they primarily served as additional compensation rather than exclusively charitable purposes. The decision overturned precedent from Estate of Leonard O. Carlson, clarifying the criteria for charitable deductions.

**Facts**

Rudolph G. Leeds died in 1964, leaving a will that directed the payment of estate taxes from his estate, excluding property bequeathed to his wife, Florence Smith Leeds. His will allocated specific bequests, including household items to his wife and stock to trustees for a trust benefiting Palladium-Item newspaper employees. The will also provided that his wife should receive property equalling 50% of his adjusted gross estate. After Rudolph's death, the estate faced a shortfall for paying estate taxes, prompting the question of which bequests should abate first. Additionally, the estate sought a charitable deduction for the bequest to the Palladium Fund, which was intended to provide pensions and insurance to the newspaper's employees.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in the estate taxes of both Rudolph and Florence Leeds' estates. The estates filed petitions with the United States Tax Court to contest these deficiencies, specifically challenging the disallowance of the maximum marital deduction and the charitable deduction for the Palladium Fund bequests. The Tax Court reviewed the case, leading to the decision on the issues of marital deduction and charitable bequests.

**Issue(s)**

1. Whether, for the purpose of computing the marital deduction under IRC section 2056, the bequest to the surviving spouse abates last for the payment of estate taxes.
2. Whether the bequests to the Palladium Fund, intended for employee pensions and insurance, qualify as charitable under IRC section 2055.

 

## Holding

1. Yes, because the testator's intention, as expressed in the will, was to ensure his wife received 50% of the adjusted gross estate, and Indiana law supports abatement in a manner that gives effect to the testator's intent.
2. No, because the bequests to the Palladium Fund were not used exclusively for charitable purposes but served as additional compensation to the employees, failing to meet the federal tax criteria for charitable deductions.

## Court's Reasoning

The court applied Indiana law on the order of abatement, which prioritizes the testator's intent. Rudolph's will explicitly directed that estate taxes be paid from other property to maximize the marital deduction, indicating his primary intention was for his wife to receive 50% of the estate. Thus, the court found that the bequest to the wife should abate last, after other bequests. On the charitable deduction issue, the court relied on federal law to determine the charitable nature of the bequests. The Palladium Fund was primarily a pension and insurance fund for employees, which the court viewed as additional compensation rather than exclusively charitable. The court overruled Estate of Leonard O. Carlson, citing Watson v. United States as clarifying that such funds do not qualify as charitable under IRC section 2055. The court emphasized that the fund's benefits were tied to employment, not charitable criteria, and thus not deductible.

## Practical Implications

This decision guides attorneys in estate planning to clearly specify the order of abatement in wills to maximize tax benefits like the marital deduction. It also impacts the drafting of bequests intended for charitable deductions, emphasizing that funds benefiting specific employees may not qualify as charitable under federal tax law. The ruling influences the structuring of employee benefit plans and charitable trusts, highlighting the distinction between compensation and charitable contributions. Subsequent cases involving similar employee benefit funds have cited Leeds to support the denial of charitable deductions, reinforcing the precedent set by this case.

 