Estate of Saul Krampf, Ida Krampf, Executrix, Petitioner v. Commissioner of Internal Revenue, Respondent, 56 T. C. 293 (1971)

A surviving spouse's interest in property received under a joint will can be a terminable interest ineligible for the marital deduction if the interest may pass to another after the spouse's death.

Summary

In Estate of Krampf, the Tax Court ruled that property passing to Ida Krampf under a joint will with her deceased husband Saul was a terminable interest not qualifying for the marital deduction. The will required the survivor to bequeath any unconsumed property to their children, creating a contractual obligation under New Jersey law. The court also upheld a penalty for late filing of the estate tax return, calculating it based on the correct tax liability. This case clarifies that a joint will's terms can affect marital deduction eligibility and stresses the importance of timely filing of estate tax returns.

Facts

Saul Krampf died testate on July 5, 1965, leaving a joint will with his wife, Ida. The will directed that all property of the deceased spouse pass to the survivor, and upon the survivor's death, any remaining property should go to their children, Corinne T. Miller and Barbara Ann Krampf. Ida Krampf, as executrix, filed the estate tax return late on October 17, 1966, claiming a marital deduction for the property passing to her. The Commissioner of Internal Revenue disallowed the deduction, asserting the interest was terminable, and assessed a penalty for late filing.

Procedural History

The Commissioner determined a deficiency in the estate tax and assessed a penalty for late filing. The Estate of Saul Krampf, represented by Ida Krampf as executrix, filed a petition with the U. S. Tax Court challenging the disallowance of the marital deduction and the penalty assessment.

Issue(s)

1. Whether the interest in property passing to Ida Krampf under the joint will qualifies for the marital deduction under section 2056 of the Internal Revenue Code.
2. Whether the addition to tax under section 6651(a) for late filing should be based on the correct tax liability or the amount shown on the return.

Holding

1. No, because under New Jersey law, the joint will created a contractual obligation for Ida Krampf to pass any unconsumed property to the children, making her interest terminable and ineligible for the marital deduction.

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2. Yes, because the penalty for late filing must be calculated based on the correct tax liability rather than the amount shown on the return.

Court’s Reasoning

The court applied New Jersey law to interpret the joint will, finding it created a contract between Saul and Ida Krampf to dispose of their estates jointly, with the children as third-party beneficiaries. This contractual obligation meant that Ida’s interest in the property was terminable upon her death, as any unconsumed property would pass to the children, disqualifying it from the marital deduction under IRC section 2056(b)(1). The court cited *Estate of Edward N. Opal* to support its interpretation of terminable interests. For the late filing penalty, the court followed *C. Fink Fischer*, ruling that the penalty must be based on the correct tax liability, as Ida failed to show reasonable cause for the delay.

Practical Implications

This decision emphasizes the need for careful drafting of joint wills to avoid unintended tax consequences. Practitioners should advise clients that language in a joint will creating a contractual obligation to pass property to others after the survivor’s death can result in the loss of the marital deduction. The ruling also serves as a reminder that penalties for late filing of estate tax returns are calculated on the correct tax liability, not the amount reported, highlighting the importance of accurate and timely filings. Subsequent cases have followed this reasoning, impacting estate planning and tax practice related to joint wills and marital deductions.

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