Estate of George I. Speer, Deceased, Bank of Delaware and Alice M. Speer, Executors, Petitioners v. Commissioner of Internal Revenue, Respondent, 57 T. C. 804 (1972)

A charitable remainder deduction under Section 2055 is not precluded by a trustee's discretionary powers over investment and allocation of income and expenses, as long as those powers do not create uncertainty about the charity's interest.

Summary

George I. Speer created a revocable trust, with the remainder interest designated for a charity after life estates. The trust granted the Bank of Delaware broad discretionary powers over investments and the allocation of dividends and expenses. The issue was whether these powers precluded the charitable remainder deduction under Section 2055. The Tax Court held that the deduction was allowable, reasoning that the trustee's powers were not so broad as to create uncertainty about the charity's interest. The court distinguished this case from others where deductions were disallowed due to broader trustee powers or different state laws.

Facts

George I. Speer established a revocable inter vivos trust on July 12, 1963, naming the Bank of Delaware as the sole trustee. The trust provided for income payments to Speer during his lifetime, with subsequent life estates to his siblings. Upon the death of all life tenants, the remainder was to be held for the New Castle Presbytery. The trust agreement granted the trustee broad discretion in investing trust assets, including the ability to invest heavily in stocks like IBM, and to allocate dividends and expenses between principal and income. After Speer's death on June 21, 1965, his will directed his residuary estate into the trust. The IRS challenged the estate's charitable deduction, arguing that the trustee's discretionary powers made the charitable remainder interest unascertainable.

Procedural History

The estate filed a tax return claiming a charitable deduction for the trust's remainder interest. The IRS determined a deficiency and denied the deduction, leading the estate to petition the U. S. Tax Court. The Tax Court heard the case and issued a decision in favor of the estate, allowing the charitable deduction.

Issue(s)

1. Whether the discretionary powers granted to the trustee preclude the deductibility of the charitable remainder under Section 2055 of the Internal Revenue Code?

Holding

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1. No, because the discretionary powers granted to the trustee in this case do not create uncertainty about the value of the charitable remainder interest sufficient to preclude the deduction under Section 2055.

Court’s Reasoning

The Tax Court reasoned that the trustee’s powers, while broad, were not so extensive as to create the level of uncertainty that would disallow the charitable deduction. The court emphasized that the trust’s discretionary powers were narrower than those in other cases where deductions were denied. The court noted that the trust did not allow the trustee to invade principal for the benefit of life beneficiaries, and the trust’s investment in growth stocks like IBM favored the remainderman. Additionally, the court considered Delaware law, which provides guidelines for the allocation of corporate distributions, and found that the trustee’s powers did not override these guidelines to such an extent as to create uncertainty about the charitable interest. The court also distinguished this case from others based on the specific language of the trust and the applicable state law, rejecting the IRS’s argument that the Third Circuit’s decision in Estate of Stewart should control this case.

Practical Implications

This decision clarifies that a trustee’s discretionary powers over investment and allocation do not automatically preclude a charitable remainder deduction. Estate planners should carefully draft trust instruments to ensure that any discretionary powers granted to trustees do not create uncertainty about the charitable interest. The decision also underscores the importance of state law in determining the effect of trustee powers on charitable deductions. Practitioners should consider the applicable state law when designing trusts to maximize the likelihood of a charitable deduction. This case may influence future cases involving similar issues, particularly in jurisdictions with similar trust laws to Delaware. However, the Tax Reform Act of 1969, which requires specific trust structures for charitable deductions, limits the applicability of this case to estates subject to that Act.

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