Estate of Rubin v. Commissioner, 57 T. C. 817 (1972)

Antenuptial agreements providing for a surviving spouse's support from a testamentary trust do not qualify for the marital deduction or as deductible claims against the estate if they involve the relinquishment of inheritance rights.

Summary

Isadore Rubin's will left 50% of his residuary estate to a trust for his wife, Rose, as per their antenuptial agreement, which promised her $100 weekly for life. The U. S. Tax Court held that this arrangement did not qualify for the estate's marital deduction because Rose's interest was terminable upon her death, with the remainder going to Rubin's sons. Furthermore, the court ruled that these payments were not deductible as claims against the estate since they were based on Rose relinquishing her inheritance rights, not support rights, and thus did not constitute full and adequate consideration in money or money's worth under federal tax law.

Facts

Isadore Rubin entered into an antenuptial agreement with Rose Harris before their marriage, agreeing to provide her $100 weekly for life from his estate upon his death. Rubin's will, executed in 1964, established a trust with 50% of his residuary estate to fulfill this obligation, with the remainder to pass to his sons upon Rose's death. After Rubin's death in 1965, his estate claimed a marital deduction for the value of Rose's interest in the trust and alternatively sought to deduct it as a claim against the estate.

Procedural History

The Commissioner of Internal Revenue disallowed the marital deduction and the claim deduction, asserting the interest was a terminable interest not qualifying under Section 2056(b)(5) and that the claim was not for full and adequate consideration. The Estate of Rubin then petitioned the U. S. Tax Court, which upheld the Commissioner's determination.

Issue(s)

1. Whether the interest of the surviving spouse in 50% of the residuary estate qualifies for the marital deduction under Section 2056 of the Internal Revenue Code.
2. Whether the interest of the surviving spouse is deductible as a claim against the estate under Section 2053 of the Internal Revenue Code.

Holding

1. No, because the interest is a terminable interest that fails to meet the requirements of Section 2056(b)(5), as Rose does not have a power of appointment over the trust principal and is not entitled to all the income from the trust.

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2. No, because the payments are based on the relinquishment of inheritance rights, not support rights, and thus do not constitute full and adequate consideration in money or money's worth under Section 2053(c)(1)(A).

Court's Reasoning

The Tax Court applied the terminable interest rule under Section 2056(b)(2), finding that Rose's interest terminated upon her death, with the property passing to Rubin's sons, which disqualified it from the marital deduction. The court rejected the estate's argument under Section 2056(b)(5), noting that Rose did not have a power of appointment over the trust principal, and her payments were limited to $100 weekly, not all trust income. For the claim deduction, the court relied on Section 2053(c)(1)(A) and Section 2043(b), which specify that relinquishment of marital or inheritance rights is not consideration in money or money's worth. The court distinguished between support rights (which could qualify) and inheritance rights (which do not), concluding that Rose's antenuptial agreement only involved the latter. The court also cited prior cases and rulings that supported its interpretation.

Practical Implications

This decision clarifies that antenuptial agreements involving the exchange of inheritance rights for a testamentary trust do not qualify for the marital deduction or as deductible claims against the estate. Legal practitioners must carefully structure such agreements to avoid similar pitfalls, ensuring they do not involve the relinquishment of inheritance rights if seeking tax benefits. The ruling influences estate planning by highlighting the importance of distinguishing between support and inheritance rights in marital agreements. Subsequent cases have followed this precedent, and estate planners should consider alternative strategies, such as trusts with a general power of appointment, to achieve desired tax outcomes.

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