Estate of Kleemeier v. Commissioner, 58 T. C. 241 (1972)

The exclusion from the gross estate under IRC § 2039(c)(3) for annuity payments is limited to the estate of the deceased employee for whom the annuity was purchased.

Summary

Lyla Kleemeier's estate sought to exclude from her gross estate the value of annuities she received as beneficiary after her husband Robert's death. These annuities were funded by Robert's employers and his own contributions. The Tax Court held that the exclusion under IRC § 2039(c)(3) applies only to the estate of the employee for whom the annuity was purchased, not to a beneficiary's estate. The court also declined to consider an issue raised for the first time on brief, emphasizing the importance of proper pleading in tax litigation. This decision underscores the narrow scope of the § 2039(c)(3) exclusion and the procedural rules governing tax court cases.

Facts

Robert Kleemeier, a professor, owned annuity contracts from TIAA and CREF, funded by contributions from himself and his employers, Northwestern and Washington Universities. Upon Robert's death, his wife Lyla became the beneficiary and received new annuity contracts. Lyla died three months later, and her estate sought to exclude the employer-funded portion of these annuities from her gross estate under IRC § 2039(c)(3). The Commissioner challenged this exclusion, arguing it only applied to the employee's estate.

Procedural History

The estate filed a federal estate tax return including only the portion of the annuities attributable to Robert's contributions. The Commissioner issued a notice of deficiency, increasing the taxable amount to include the full value of the annuities. The estate petitioned the Tax Court, which heard the case and issued its opinion on May 8, 1972.

Issue(s)

1. Whether the Tax Court should consider an issue raised by the petitioner for the first time on brief.
2. Whether the exclusion provided by IRC § 2039(c)(3) applies to the estate of a decedent who was not the employee for whom the annuity was purchased.

Holding

1. No, because the issue was not properly raised in the pleadings.
2. No, because the exclusion under IRC § 2039(c)(3) is limited to the estate of the deceased employee for whom the annuity was purchased.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court first addressed the procedural issue, stating that an issue raised for the first time on brief cannot be considered if not properly pleaded. On the substantive issue, the court analyzed the language and legislative history of IRC § 2039(c)(3). It noted that the statute consistently refers to ‘the decedent’ as the employee, indicating that the exclusion was intended for the employee’s estate only. The court rejected the estate’s argument that the exclusion should apply to any decedent, finding that such an interpretation would require reading the statute out of context. The court also considered the implications of alternative theories for inclusion under other Code sections but found them unnecessary to decide given the clear inapplicability of § 2039(c)(3).

Practical Implications

This decision clarifies that the § 2039(c)(3) exclusion is narrowly tailored to the estate of the employee, not beneficiaries. Attorneys must carefully consider the source of annuity funding and the identity of the decedent when planning estates involving such benefits. The case also serves as a reminder of the importance of proper pleading in tax litigation, as issues not raised in the petition may not be considered. For estate planners, this ruling may influence decisions about naming beneficiaries and structuring annuity contracts to maximize tax benefits. Subsequent cases have cited Kleemeier to affirm the limited scope of § 2039(c)(3), guiding practitioners in their analysis of similar situations.

© 2025 SCOTUSreports.com. All rights reserved.