Estate of Bernard J. McGuire, Erwin J. McGuire, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 59 T. C. 361 (1972)

A charitable deduction is allowable under IRC § 2055(a) when a trust's power of invasion is limited by a definite and ascertainable standard.

Summary

In Estate of McGuire v. Comm'r, the U. S. Tax Court ruled that a trust created by Bernard J. McGuire's will, which authorized the trustee to invade the principal for the comfort of his sister, a member of the Sisters of Mercy, was subject to a definite and ascertainable standard. This allowed the estate to claim a charitable deduction for the remainder interest under IRC § 2055(a). The court found that the term "comfort" in the will referred to the sister's pre-existing standard of living, which was predictable and quantifiable, thus permitting the deduction. The decision clarifies how trusts with powers of invasion can qualify for charitable deductions and emphasizes the importance of objective standards in will drafting.

Facts

Bernard J. McGuire died testate on April 16, 1968, leaving a will that created a trust with $5,000 to be managed by his nephew, Erwin J. McGuire. The trust directed the trustee to pay the net income and invade the principal if necessary for the comfort of McGuire's sister, Mother M. Camilla, a member of the Sisters of Mercy in Rochester, New York. Upon Camilla's death, the remaining balance was to be paid to the Sisters of Mercy. Camilla, who had taken a vow of poverty, lived in the order's infirmary and received approximately $20 per month from the decedent before his death. The trust disbursed funds at a similar rate during her lifetime, with additional expenditures for the infirmary and church contributions.

Procedural History

The estate claimed a charitable deduction of $4,223 for the remainder interest in the trust. The IRS disallowed the deduction, leading to a deficiency of $1,144. 45 in estate tax. The estate then petitioned the U. S. Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the estate is entitled to a charitable deduction under IRC § 2055(a) for the value of the remainder interest in the trust, given the trustee's power to invade the corpus for the comfort of the life beneficiary.

Holding

1. Yes, because the power of invasion was limited by a definite and ascertainable standard, allowing the estate to claim a charitable deduction under IRC § 2055(a).

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court focused on whether the standard for the trustee’s power of invasion was sufficiently definite and ascertainable to permit a reliable valuation of the charitable remainder. The court found that the term “comfort” in the will, when considered in context, referred to the life beneficiary’s pre-existing standard of living, which was objectively quantifiable. The court cited numerous cases where similar standards were deemed sufficient for charitable deductions, such as “comfort and welfare” and “support, maintenance, welfare and comfort. ” The court also noted that New York law supported the interpretation that the standard implied the beneficiary’s previous station in life. The court rejected the IRS’s argument that the trustee’s discretion made the amount of invasion unpredictable, emphasizing that the trustee’s judgment was guided by the objective standard of “comfort” and the necessity of the life beneficiary’s superior’s permission for any expenditures.

Practical Implications

This decision clarifies that a trust’s power of invasion can qualify for a charitable deduction under IRC § 2055(a) if it is limited by an objective and quantifiable standard related to the life beneficiary’s pre-existing standard of living. Estate planners should draft trust provisions with clear, definite standards to ensure eligibility for charitable deductions. The ruling also highlights the importance of considering state law interpretations of such standards. Practitioners should be aware that additional expenditures made with the consent of the remainderman, as in this case, may not necessarily disqualify the trust from the deduction. Subsequent cases have applied this ruling to similar trust provisions, reinforcing its significance in estate planning and tax law.

© 2025 SCOTUSreports.com. All rights reserved.