Estate of Michael Ellman, Deceased, Harold Ellman and Marjorie Ellman Weinstein, Coexecutors v. Commissioner of Internal Revenue, 59 T. C. 367 (1972)

A surviving spouse's release of dower or other marital rights, including support rights during estate administration, does not constitute consideration in money or money's worth for federal estate tax deduction purposes.

Summary

In Estate of Ellman v. Commissioner, the U. S. Tax Court ruled that a claim based on a prenuptial agreement for monthly payments to a surviving spouse was not deductible from the estate's gross estate. Michael Ellman and Mamie Cohen Constangy entered into a prenuptial agreement where Mamie waived her dower and support rights in exchange for monthly payments post-Michael's death. The court held that such a release did not qualify as 'adequate and full consideration in money or money's worth' under IRC sections 2053 and 2043(b), thus the claimed deduction of $34,581. 71 was disallowed. This decision underscores the limitations on estate tax deductions for claims arising from marital rights releases.

Facts

Michael Ellman and Mamie Cohen Constangy entered into a prenuptial agreement on October 27, 1955, before their marriage on December 10, 1955. Under the agreement, Mamie waived her dower and other marital rights, including a year's support during the administration of Michael's estate, in exchange for monthly payments of $500 (later increased to $750) during her widowhood. Michael died on May 11, 1967, and his estate claimed a deduction of $34,581. 71 for the actuarial value of these payments as a debt owed to Mamie. The Commissioner of Internal Revenue disallowed this deduction.

Procedural History

The estate filed a Federal estate tax return and claimed a deduction for the prenuptial agreement obligation. The Commissioner issued a notice of deficiency, disallowing the deduction. The estate then petitioned the U. S. Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the amount claimed as a personal debt obligation to the surviving spouse under the prenuptial agreement qualifies as a deductible claim under IRC section 2053.

Holding

1. No, because the release of dower and support rights by the surviving spouse does

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not constitute ‘adequate and full consideration in money or money’s worth’ under IRC sections 2053 and 2043(b).

Court’s Reasoning

The court applied IRC sections 2053 and 2043(b), which limit deductions for debts to those contracted bona fide and for adequate and full consideration in money or money’s worth. The court found that the release of dower or other marital rights, including support rights during estate administration, falls within the category of ‘other marital rights’ under section 2043(b) and thus does not qualify as consideration in money or money’s worth. The court distinguished this case from others where support rights during the joint lives of the spouses were at issue, emphasizing that Mamie’s support rights were contingent solely upon Michael’s death. The court also noted the legislative intent behind section 2043(b) was to prevent tax avoidance through the conversion of non-deductible claims into deductible ones. The court cited Estate of Rubin and Estate of Glen to support its interpretation and reasoning.

Practical Implications

This decision impacts estate planning by clarifying that prenuptial agreements cannot be used to convert non-deductible marital rights into deductible claims for estate tax purposes. Attorneys should advise clients that releases of dower and support rights during estate administration do not provide a basis for estate tax deductions. This ruling reinforces the need for careful drafting of prenuptial agreements and understanding the limitations on estate tax deductions. Subsequent cases, such as Estate of Rubin and Estate of Glen, have further refined the application of this principle, emphasizing the distinction between support rights during marriage and those contingent upon death.

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