Estate of Abraham Simonson, Deceased, Nathaniel Simonson and Ernest C. Geiger, Petitioners v. Commissioner of Internal Revenue, Respondent, 59 T. C. 535 (1973)

A charitable remainder interest in a trust is deductible if it is ascertainable at the time of the decedent's death and not subject to an indirect power of invasion by the trustee.

Summary

Abraham Simonson's will established a trust with income payable to his son for life and the remainder to charity. The IRS challenged the estate's charitable deduction, arguing the trustees' broad discretionary powers made the charitable interest unascertainable. The Tax Court held that under New York law, the trustees' powers did not constitute an indirect power to invade the corpus, and thus the charitable remainder was deductible. The decision emphasizes the importance of state law and the testator's intent in determining the validity of charitable deductions.

Facts

Abraham Simonson died on September 14, 1964, leaving a will that created a trust with income payable to his son, Nathaniel, for life and the remainder to be distributed to charitable organizations. The trustees were given broad discretionary powers over the trust's administration, including investment and distribution decisions. The estate claimed a charitable deduction for the remainder interest, which the IRS challenged, asserting that the trustees' powers made the charitable interest unascertainable.

Procedural History

The estate filed a federal estate tax return claiming a charitable deduction for the trust's remainder interest. The IRS issued a notice of deficiency disallowing the deduction. The estate petitioned the U. S. Tax Court, which held that the charitable remainder interest was ascertainable and deductible under New York law.

Issue(s)

1. Whether the charitable remainder interest in the trust was ascertainable at the time of the decedent's death.
2. Whether the trustees' discretionary powers constituted an indirect power to invade the trust corpus, affecting the charitable deduction.

Holding

1. Yes, because under New York law, the trustees' powers were limited by their duty to act in good faith and in accordance with the testator's intent to benefit the charitable remaindermen.

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2. No, because the trustees' powers were not an indirect power of invasion but rather administrative flexibilities intended to facilitate proper trust management.

Court's Reasoning

The court analyzed the will's language and New York law to determine the trustees' authority. It held that the trustees' powers, while broad, were constrained by their fiduciary duty to act in the best interest of all beneficiaries, including the charitable remaindermen. The court emphasized the testator's clear intent to benefit charity and cited New York cases establishing the "prudent man" rule for trustees. It distinguished this case from others where broader trustee powers were deemed to create an indirect power of invasion, noting that the powers here were "traditional boilerplate" intended for administrative flexibility. The court also relied on its prior decision in *Estate of Lillie MacMunn Stewart*, which upheld a similar charitable deduction under New York law.

Practical Implications

This decision clarifies that broad trustee powers do not necessarily preclude a charitable deduction if state law and the trust instrument indicate the testator's intent to benefit charity. Practitioners should carefully draft trust instruments to ensure that administrative powers do not appear to give trustees dispositive authority over the charitable remainder. The ruling underscores the importance of state law in determining the scope of trustee authority and the validity of charitable deductions. Subsequent cases have cited *Simonson* in upholding charitable deductions where trustees' powers were similarly constrained by state law and the testator's intent.

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