Estate of McGauley v. Commissioner, 53 T. C. 359 (1969)

Property transferred in settlement of heirs' claims against an estate does not count toward the estate tax credit under section 2013, unless the recipient was not involved in the claim.

Summary

In Estate of McGauley, the court addressed whether certain property should be considered transferred to the decedent for the purposes of the estate tax credit under section 2013. The case involved payments made to the decedent's stepdaughters from her late husband's estate to settle their will contest, and a subsequent transfer of securities from the decedent to her son. The court ruled that payments to settle the stepdaughters' claims did not constitute property transferred to the decedent, thus not eligible for the credit. However, a gift of securities to her son, who did not challenge the will, was considered part of the property transferred to the decedent for credit purposes. This decision clarifies the scope of property eligible for the estate tax credit in the context of estate settlements.

Facts

Lorraine A. McGauley's husband, Frederick F. McGauley, died in 1965, leaving his estate to her. His four daughters contested the will but settled for $27,500 each plus $5,000 for their attorney. After the settlement, Lorraine transferred $27,500 worth of securities to her son, Frederick F. McGauley, Jr. , who did not join the will contest. She also made other gifts to her son, including a trust from which he benefited. The estate claimed a credit under section 2013 based on the entire value of Mr. McGauley's estate, but the Commissioner disallowed the credit for the payments to the daughters and the securities given to the son.

Procedural History

The estate filed a Federal estate tax return claiming a credit under section 2013. The Commissioner issued a notice of deficiency, disallowing the credit for payments made to the daughters and the securities transferred to the son. The estate then petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether payments made to Mr. McGauley's daughters and their attorney in settlement of their will contest constituted property transferred to Mrs. McGauley for purposes of the estate tax credit under section 2013.
2. Whether the securities transferred by Mrs. McGauley to her son were considered property transferred to her for purposes of the estate tax credit under section 2013.

Holding

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1. No, because the payments to the daughters and their attorney were in satisfaction of their claims against Mr. McGauley's estate and thus were not transferred to Mrs. McGauley.
2. Yes, because the securities transferred to the son were a gift from Mrs. McGauley and part of the property she acquired from Mr. McGauley's estate.

Court's Reasoning

The court applied the principles from Lyeth v. Hoey and related cases, which hold that property received in settlement of a will contest is considered transferred by the decedent to the recipient, not to the estate's beneficiary. The court reasoned that the payments to the daughters and their attorney were in satisfaction of their claims and thus not transferred to Mrs. McGauley. However, the securities given to the son were treated as a gift from Mrs. McGauley, who acquired them from her husband's estate. The court noted the son's lack of involvement in the will contest and the substantial benefits he received from his mother, distinguishing his situation from that of his sisters. The court rejected the estate's argument that cases related to the marital deduction were inapplicable, stating that the ultimate determination under both sections 2056 and 2013 involves similar considerations of property transfer.

Practical Implications

This decision impacts how estates calculate the section 2013 credit by clarifying that property transferred in settlement of heirs' claims against an estate does not count toward the credit unless the recipient was not involved in the claim. Practitioners must carefully distinguish between property directly transferred to the decedent and property used to settle claims by other heirs. This ruling may influence estate planning strategies, particularly in cases involving potential will contests, as it affects the calculation of available tax credits. Subsequent cases have followed this ruling, further solidifying its impact on estate tax credit determinations.

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