Lare v. Commissioner, 66 T. C. 747 (1976)

The basis of assets distributed from an estate must be allocated proportionally among all assets received, and payments from estate funds to settle will contests do not increase the beneficiary's basis in the distributed assets.

Summary

In Lare v. Commissioner, the Tax Court addressed the allocation of basis in estate assets and the tax implications of selling estate stock. Marcellus R. Lare, Jr. , received and sold 708 shares of United Pocahontas Coal Co. stock from his late wife's estate. The court held that Lare was the owner of the stock at the time of sale and thus taxable on the gain. It also ruled that the basis of estate assets should be allocated among all stocks received, not just those sold, and that payments to will contestants from estate funds do not increase the beneficiary's basis in the assets. The decision emphasizes the importance of proper basis allocation and clarifies the tax treatment of estate distributions.

Facts

Gertrude K. Lare died in 1942, and her will, which left everything to her husband Marcellus R. Lare, Jr. , was contested by her siblings. After a long legal battle, a settlement was reached in 1964, with Lare becoming the sole beneficiary. The estate included stocks in United Pocahontas Coal Co. , Lear Siegler, Inc. , and Second National Bank of Connellsville. In 1968, Lare received and sold 708 shares of United Pocahontas stock, reporting the gain on his tax return. He claimed a higher basis, including various expenditures related to the estate's administration and litigation costs.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency of $89,814. 73 for Lare's 1968 income tax. Lare petitioned the Tax Court, challenging the deficiency. The court heard the case and issued its decision in 1976, ruling on the ownership of the stock, the allocation of basis among estate assets, and the treatment of various expenditures claimed by Lare as additions to basis.

Issue(s)

1. Whether Marcellus R. Lare, Jr. , was the owner of the 708 shares of United Pocahontas Coal Co. stock sold in 1968, making him taxable on the gain realized from the sale.
2. Whether capital expenditures to obtain the assets of the Estate of Gertrude K. Lare must be allocated among all stocks distributed from the estate.
3. Whether the payment of $73,650 to will contestants from estate funds constitutes an addition to the basis of the United Pocahontas stock and other stocks received by Lare.

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4. Whether Lare is entitled to add other disputed expenditures to the basis of the United Pocahontas stock and other stocks.

Holding

1. Yes, because Lare received and sold the stock as its owner, evidenced by court decrees and his own representations.
2. Yes, because all capital expenditures related to the estate should be allocated among all stocks in proportion to their fair market value at the time of distribution.
3. No, because the payment to will contestants was made from estate funds and did not increase Lare's basis in the stocks.
4. No, because the disputed expenditures did not meet the criteria for additions to basis under tax law.

Court's Reasoning

The court found that Lare was the owner of the United Pocahontas stock at the time of sale, as evidenced by the Orphans' Court decree and Lare's own actions in facilitating the sale. The court applied the principle that a taxpayer's statements on a tax return can be treated as admissions, supporting the conclusion that Lare owned the stock. For basis allocation, the court followed the rule that expenditures to acquire estate assets should be allocated among all assets received, based on their fair market value at distribution. The court cited Clara A. McKee and other cases to support its ruling that payments to will contestants from estate funds do not increase the beneficiary's basis in the assets. Regarding other disputed expenditures, the court applied the origin-of-the-claim test, finding that they were not related to the defense of Lare's interest in the estate and thus could not be added to basis.

Practical Implications

This decision clarifies that beneficiaries must allocate the basis of estate assets proportionally among all assets received, not just those sold. It also establishes that payments to settle will contests, when made from estate funds, do not increase the beneficiary's basis in the distributed assets. Tax practitioners should ensure accurate basis allocation in estate planning and administration, and beneficiaries should be aware that only expenditures directly related to acquiring or defending their interest in the estate can be added to the basis of received assets. The ruling may impact how estates are administered and how beneficiaries report gains from the sale of inherited assets on their tax returns.

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