Estate of Medora L. Salter, Non Compos Mentis, Mississippi Bank & Trust Company, Conservator (John A. Salter, Successor Conservator), Transferee, Petitioner v. Commissioner of Internal Revenue, Respondent, 63 T. C. 537 (1975)

A life estate with a limited power of disposition does not qualify for the marital deduction, and family agreements to alter the terms of a will do not constitute disclaimers for tax purposes.

Summary

In Estate of Salter v. Commissioner, the U. S. Tax Court examined whether a bequest to the decedent's widow qualified for the marital deduction under section 2056 of the Internal Revenue Code. Cary W. Salter, Sr. 's will left all his property to his wife, Medora, with any residual after her death to be divided among their children. The widow sought a court order interpreting the will to grant her absolute power of disposition. The Tax Court held that the will gave Medora only a life estate with limited power for her maintenance and support, not qualifying for the marital deduction. Furthermore, the children's agreement to be bound by the court's decree was not considered a disclaimer under section 2056(d)(2), as it did not meet the statutory requirements for a valid disclaimer.

Facts

Cary W. Salter, Sr. died on March 1, 1968, leaving his entire estate to his wife, Medora L. Salter, with any residue after her death to be split equally among their four children. The will did not explicitly grant Medora an absolute power to appoint the estate. Before the estate tax return was due, Medora filed a petition in the Chancery Court to interpret the will to grant her absolute power of disposition without the need for the children's consent. The children filed entries of appearance, joining the petition and agreeing to be bound by the court's judgment. The Chancery Court issued a decree granting Medora absolute power over the estate. The estate claimed a marital deduction, but the IRS disallowed it, leading to the Tax Court case.

Procedural History

The estate tax return was filed claiming a marital deduction, which the IRS disallowed. The estate, through its conservator, appealed to the U. S. Tax Court. The Tax Court reviewed the will's interpretation under Mississippi law and the nature of the children's entries of appearance, leading to the final decision.

Issue(s)

1. Whether decedent's will gave his wife a life estate with a general power of appointment that satisfies the requirements of section 2056(b)(5) for the marital deduction?

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2. Whether the children of decedent effected disclaimers under section 2056(d)(2) by entering appearances in the Chancery Court proceeding?

Holding

1. No, because the will, under Mississippi law, granted the widow only a life estate with a limited power of disposition for her maintenance and support, not qualifying for the marital deduction under section 2056(b)(5).
2. No, because the children's entries of appearance were not disclaimers within the meaning of section 2056(d)(2), as they did not constitute a unilateral refusal to accept the interests under the will.

Court's Reasoning

The court applied Mississippi law to interpret the will, citing cases like Vaughn v. Vaughn, which held that a life estate with a subsequent limitation over the residue does not grant absolute power of disposition. The will's language did not clearly provide for an absolute power of appointment to the widow, thus failing to meet the requirements of section 2056(b)(5). The court further reasoned that the children's entries of appearance, although leading to a Chancery Court decree, were not disclaimers under section 2056(d)(2). A valid disclaimer must be a complete and unqualified refusal to accept property, and the children's actions were contractual in nature, not a unilateral disclaimer. The court relied on legislative history and case law to distinguish between a disclaimer and a family agreement, concluding that the powers granted to Medora did not pass from the decedent but from the children's agreement.

Practical Implications

This decision clarifies that a life estate with limited power of disposition does not qualify for the marital deduction under section 2056(b)(5). Estate planners must ensure wills explicitly grant the surviving spouse an absolute power of appointment to secure the deduction. The case also emphasizes that family agreements to alter the terms of a will do not constitute disclaimers for tax purposes under section 2056(d)(2). Practitioners must advise clients that disclaimers must be unilateral and without consideration to be effective for tax purposes. This ruling has implications for estate planning strategies, particularly in states like Mississippi where family agreements are favored, and may affect how similar cases are analyzed in other jurisdictions. Subsequent cases have further distinguished between disclaimers and family agreements, reinforcing the principles set forth in Estate of Salter.

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