Estate of Leo J. Goldwater, Deceased, Irving D. Lipkowitz and Lee J. Goldwater, Executors, Petitioners v. Commissioner of Internal Revenue, Respondent, 64 T. C. 540 (1975)

The term 'surviving spouse' for marital deduction under section 2056 of the Internal Revenue Code is determined by state law.

Summary

Leo J. Goldwater obtained a Mexican divorce from his wife Gertrude, which was later declared invalid by a New York court, affirming Gertrude as his legal wife at his death. The U. S. Tax Court had to decide if Leo's estate could claim a marital deduction for property passing to Lee J. Goldwater, whom Leo had purportedly married after the Mexican divorce. The court ruled that under section 2056, 'surviving spouse' is defined by state law, and thus, the marital deduction was applicable only to the property passing to Gertrude, not Lee. This ruling underscores the importance of state law in defining marital status for federal tax purposes and its impact on estate tax deductions.

Facts

Leo J. Goldwater married Gertrude B. Goldwater in 1946. In 1956, Gertrude was awarded a final decree of separation. Leo obtained a Mexican divorce in 1958, which he did not contest when Gertrude sought a declaratory judgment in New York, resulting in the divorce being declared null and void in February 1959. Leo then purportedly married Lee J. Goldwater in December 1958. Leo died in 1968, leaving a will bequeathing over half his estate to Lee. Gertrude claimed an elective share, which was settled for $205,000. The IRS disallowed a marital deduction claimed for the property passing to Lee, asserting that Gertrude was the surviving spouse under New York law.

Procedural History

The case began with the IRS issuing a deficiency notice for Leo's estate tax, disallowing the marital deduction claimed for property passing to Lee. The estate's executors, including Lee, petitioned the U. S. Tax Court, which ultimately upheld the IRS's determination that only the property passing to Gertrude qualified for the marital deduction under section 2056.

Issue(s)

1. Whether Gertrude B. Goldwater, rather than Lee J. Goldwater, is the 'surviving spouse' of Leo J. Goldwater within the meaning of section 2056 of the Internal Revenue Code?

Holding

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1. Yes, because under New York law, the declaratory judgment rendered Gertrude as Leo's legal wife at the time of his death, making her the 'surviving spouse' for purposes of the marital deduction under section 2056.

Court's Reasoning

The court determined that the term 'surviving spouse' under section 2056 should be interpreted in line with state law, reflecting Congress's intent to 'equate the decedent in the common-law State with the decedent in the community-property State. ' The court emphasized that the New York court's judgment declaring the Mexican divorce invalid and affirming Gertrude as Leo's wife was conclusive. It rejected the applicability of the Second Circuit's Borax and Wondsel decisions, which dealt with alimony and joint return issues, as they did not directly address the interpretation of 'surviving spouse' under section 2056. The court concluded that recognizing Gertrude as the surviving spouse under New York law aligns with the purpose of section 2056, promoting uniformity in estate tax administration by considering the person who inherits as the 'surviving spouse' under state law.

Practical Implications

This decision clarifies that for federal estate tax purposes, the determination of who is the 'surviving spouse' under section 2056 hinges on state law, impacting how estates plan for and claim marital deductions. Estate planners must consider the validity of divorces and subsequent marriages under state law, as these determinations directly affect the estate's tax liability. The ruling also underscores the importance of ensuring that any divorce obtained abroad is recognized in the state of domicile to avoid disputes over marital status upon death. Subsequent cases have reinforced this principle, emphasizing the need for estate planning to account for potential challenges to marital status based on state law.

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