Estate of Wesley A. Steffke, Deceased, Wisconsin Valley Trust Company and Priscilla Baker Lane Steffke, Co-Executors v. Commissioner of Internal Revenue, 64 T. C. 530 (1975)

The determination of who qualifies as a 'surviving spouse' for the purpose of the marital deduction under section 2056 of the Internal Revenue Code depends on applicable state law.

Summary

In Estate of Steffke, the Tax Court ruled that Priscilla Baker Lane Steffke was not the surviving spouse of Wesley A. Steffke for federal estate tax marital deduction purposes because Wisconsin law did not recognize her Mexican divorce from her prior husband. The court held that the term 'surviving spouse' in section 2056 of the Internal Revenue Code is defined by state law, not federal law. This decision was influenced by the close relationship between the marital deduction and state property law concepts, leading to the conclusion that the marital status as determined by Wisconsin's highest court should control for tax purposes.

Facts

Wesley A. Steffke died in 1968, leaving most of his estate to Priscilla Baker Lane, whom he married in 1967. Priscilla had obtained a Mexican divorce from her previous husband, Crockett W. Lane, in 1966. After Steffke's death, the Wisconsin Supreme Court ruled that Priscilla's Mexican divorce was invalid under Wisconsin law, thus deeming her not legally married to Steffke at the time of his death. The estate sought a marital deduction for the property transferred to Priscilla under section 2056 of the Internal Revenue Code.

Procedural History

The executors of Steffke's estate filed a federal estate tax return claiming a marital deduction for the property passing to Priscilla. The IRS Commissioner denied the deduction, asserting Priscilla was not the surviving spouse. The case came before the U. S. Tax Court, where the estate argued that Priscilla should be considered the surviving spouse under federal law, despite the Wisconsin Supreme Court's ruling.

Issue(s)

1. Whether the determination of who qualifies as a 'surviving spouse' for the purpose of the marital deduction under section 2056 of the Internal Revenue Code depends on applicable state law or federal law.

Holding

1. Yes, because the marital deduction under section 2056 is intimately related to state law concepts, and the term 'surviving spouse' should be interpreted according

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to the law of the state where the decedent was domiciled.

Court’s Reasoning

The Tax Court reasoned that section 2056 of the Internal Revenue Code does not provide a federal definition of ‘surviving spouse,’ necessitating reliance on state law. The court emphasized that the marital deduction’s operation depends on state-defined interests such as inheritance, dower, homestead rights, and community property, which are all governed by state law. The court referenced the Wisconsin Supreme Court’s decision, which held that Priscilla’s Mexican divorce was invalid, thus not recognizing her marriage to Steffke. This ruling was given full faith and credit, as Wisconsin had the dominant interest in the marital status of its domiciliaries. The court rejected the estate’s argument based on federal tax cases involving alimony and joint returns, distinguishing them from the marital deduction context which is closely tied to state law.

Practical Implications

This decision underscores the importance of state law in determining marital status for federal estate tax purposes. Attorneys must consider the validity of a marriage under state law when advising on estate planning and tax strategies involving the marital deduction. The ruling affects estate planning in states with strict divorce recognition policies, potentially limiting the availability of the marital deduction in cases involving foreign divorces not recognized by the state. Subsequent cases have followed this precedent, reaffirming the principle that state law governs the definition of ‘surviving spouse’ for marital deduction eligibility.

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