Estate of Robert F. Iversen, Deceased, Pittsburgh National Bank, Agent for John D. Iversen, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 65 T. C. 391; 1975 U. S. Tax Ct. LEXIS 25

For estate tax purposes, a claim against an estate based on a separation agreement is deductible only if supported by adequate consideration in money or money's worth, excluding the release of marital rights.

Summary

Robert Iversen and his wife Mary entered into a separation agreement in 1950, which provided for monthly payments to Mary for life or until remarriage, secured by a trust. The agreement was binding regardless of divorce. After Robert's death, the executor sought to deduct the value of Mary's claim against the estate under the agreement. The court held that no deduction was available under Section 2043(a) because no consideration was received for the trust's creation, and under Section 2053(a)(3) because Mary's release of support rights during marriage did not provide consideration for payments after Robert's death.

Facts

In 1950, Robert F. Iversen and his wife Mary, residents of Pennsylvania, entered into a separation agreement. The agreement required Robert to pay Mary $50,000 immediately and $1,000 per month until her death or remarriage, with a lump sum of $75,000 upon her remarriage. These payments were secured by a trust funded with $220,000 in assets. The agreement was to remain effective regardless of whether a divorce was obtained. Mary filed for divorce in September 1950, which was granted in December 1950. Robert died in 1969, and Mary continued receiving payments from the trust until her death in 1973. The executor of Robert's estate sought to reduce the estate's value by the commuted value of the monthly payments to Mary.

Procedural History

The executor filed a Federal estate tax return in 1970, claiming a deduction for the commuted value of the monthly payments to Mary under the separation agreement. The Commissioner of Internal Revenue disallowed the deduction, leading to a deficiency notice. The executor petitioned the U. S. Tax Court, which heard the case in 1975.

Issue(s)

1. Whether the value of the trust assets includable in the gross estate should be reduced under Section 2043(a) due to consideration received by the decedent for the creation of the trust.
2. Whether the obligation of the estate to make monthly payments to Mary under the separation agreement is a claim against the estate supported by consideration in

money or money’s worth, deductible under Section 2053(a)(3).

Holding

1. No, because the decedent received no consideration for the transfer of assets to the trust, and thus, the value of the trust assets includable in the gross estate is not reduced under Section 2043(a).
2. No, because the decedent received no consideration in money or money’s worth for the monthly payments to be made to Mary after his death, and thus, the claim is not deductible under Section 2053(a)(3).

Court’s Reasoning

The court reasoned that the trust was created solely as security for the payments to Mary, not as consideration for her release of marital rights. The separation agreement itself was the consideration for her release of rights, not the trust’s creation. Regarding the claim against the estate, the court found that Mary’s release of her right to support during marriage was consideration only for payments during Robert’s lifetime, not after his death. The court used Pennsylvania law to determine that Mary’s support rights were fully satisfied by the payments during Robert’s life, and no evidence showed Robert received any additional consideration for post-death payments. The court emphasized that the objective standard of “consideration in money or money’s worth” must be met for a deduction, and Mary’s potential comfort from knowing payments would continue after Robert’s death was not sufficient consideration to the decedent.

Practical Implications

This decision clarifies that for estate tax purposes, claims against an estate based on separation agreements are only deductible if supported by adequate consideration in money or money’s worth, excluding the release of marital rights. Practitioners should carefully analyze the consideration received by the decedent at the time of the agreement, ensuring it aligns with the payments claimed as deductions. This case may influence how similar claims are structured in separation agreements to ensure tax deductibility. It also underscores the importance of state law in determining the value of support rights. Subsequent cases like *Sherman v. United States* have distinguished this ruling based on different state law considerations regarding support rights.

