Estate of Blanche T. Fiedler, Deceased, Albert C. Fiedler, Personal Representative, Petitioner v. Commissioner of Internal Revenue, Respondent, 67 T. C. 239 (1976)

Life insurance proceeds can qualify for the marital deduction if they are payable to the surviving spouse in installments or interest within 13 months of the decedent's death, and the spouse has a power of appointment over them.

Summary

Blanche T. Fiedler's estate sought a marital deduction for life insurance proceeds, which the Commissioner disallowed, arguing they were a terminable interest. The Tax Court held that the proceeds qualified under IRC Section 2056(b)(6) because they were held by the insurer subject to an agreement to pay interest or installments, payable within 13 months after the decedent's death, and the surviving spouse had an exercisable power of appointment over them. This ruling emphasizes the flexibility in structuring life insurance to qualify for the marital deduction and the importance of the surviving spouse's control over the proceeds.

Facts

Blanche T. Fiedler died owning a $5,000 life insurance policy with Northwestern Mutual Life Insurance Co. Her husband, Albert C. Fiedler, was named the direct beneficiary with their son as the contingent beneficiary. The policy allowed the beneficiary to choose one of four settlement options for receiving the proceeds, which included lump sum, interest payments, fixed installments, or an annuity. The decedent had selected a marital deduction provision giving Albert the power to revoke contingent beneficiaries and appoint the proceeds to his estate. Albert elected to receive payments under the first settlement option on March 19, 1973.

Procedural History

Albert C. Fiedler, as the personal representative of Blanche's estate, filed a Federal estate tax return claiming the insurance proceeds as part of the marital deduction. The Commissioner disallowed the deduction, leading to a deficiency notice. The estate then petitioned the United States Tax Court, which ruled in favor of the estate on November 17, 1976.

Issue(s)

1. Whether the life insurance proceeds were subject to an agreement to pay interest or installments as of the date of the decedent's death.
2. Whether the proceeds were payable within 13 months after the decedent's death.
3. Whether the surviving spouse possessed a power of appointment over the proceeds that was exercisable in all events.

Holding

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1. Yes, because the surviving spouse had the right to select a settlement option at any time, effectively making the proceeds subject to an agreement to pay interest or installments as of the decedent's death.
2. Yes, because the proceeds were payable within 13 months after the decedent's death, as the surviving spouse could demand payment at the latest within 1 month after the decedent's death or after selecting a settlement option.
3. Yes, because the surviving spouse had an exercisable power of appointment over the proceeds, as the requirement to revoke contingent beneficiaries was merely a formal limitation, not a condition precedent.

Court's Reasoning

The court interpreted IRC Section 2056(b)(6) to require that the surviving spouse have a lifetime interest in the proceeds and control over their disposition. The court found that the decedent intended the transfer to qualify for the marital deduction and that the surviving spouse's ability to choose the settlement option met the statutory requirement for an agreement to pay interest or installments. The court also held that the proceeds were payable within 13 months because the surviving spouse had the right to demand payment within that period. Finally, the court determined that the power of appointment was exercisable in all events, as the requirement to revoke contingent beneficiaries was merely a formality. The court emphasized the liberal construction of the statute to fulfill the decedent's intent and ensure the marital deduction's application.

Practical Implications

This decision provides guidance on structuring life insurance policies to qualify for the marital deduction. It clarifies that the surviving spouse's ability to choose a settlement option satisfies the requirement for an agreement to pay interest or installments. Practitioners should ensure that life insurance policies give the surviving spouse control over the proceeds and the ability to demand payment within 13 months of the decedent's death. The decision also highlights the importance of clearly stating the decedent's intent to qualify for the marital deduction, as courts will interpret ambiguities in favor of such intent. Subsequent cases have followed this ruling, reinforcing its impact on estate planning involving life insurance.

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