Estate of Bluma Steinman, Reuben Steinman and William Steinman, Co-Executors, Petitioner v. Commissioner of Internal Revenue, Respondent, 69 T. C. 804 (1978)

The value of property subject to a general power of appointment held at death must be included in the gross estate without reduction for consideration received upon creation of the power, unless consideration was received for its exercise or release.

Summary

Bluma Steinman held a general testamentary power of appointment over the corpus of a trust created by her late husband, Israel Steinman. Upon her death, the IRS sought to include the full value of the trust's corpus in her estate under Section 2041(a) of the Internal Revenue Code. The estate argued that the value should be reduced under Section 2043(a) because Bluma had relinquished her community property rights to receive the power. The U. S. Tax Court held that no reduction was warranted, as Section 2043(a) only applies when consideration is received for the exercise or release of the power, not its creation. This case clarifies that the full value of property subject to a general power of appointment must be included in the decedent's gross estate, regardless of what was given up to obtain the power.

Facts

Israel Steinman died in 1954, leaving a will that established the Bluma Steinman Trust and the Residual Trust. Bluma elected to take under the will rather than claim her community property share. The Bluma Steinman Trust provided Bluma with income for life and a general testamentary power of appointment over the corpus. Upon her death in 1970, Bluma's will exercised this power, directing the trust assets to her children. The trust's corpus consisted of a three-fifths interest in commercial realty valued at $109,400.

Procedural History

The IRS issued a deficiency notice in 1975, asserting that the full value of the Bluma Steinman Trust's corpus should be included in Bluma's gross estate under Section 2041(a). The estate petitioned the U. S. Tax Court, arguing that the value should be reduced under Section 2043(a) due to Bluma's relinquishment of her community property rights. The case was submitted on stipulated facts under Tax Court Rule 122.

Issue(s)

1. Whether the value of the Bluma Steinman Trust's corpus, includable in Bluma's gross estate under Section 2041(a), should be reduced under Section 2043(a) due to Bluma's relinquishment of her community property rights to obtain the power of appointment.

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Holding

1. No, because Section 2043(a) only allows a reduction when consideration is received for the exercise or release of the power, not its creation.

Court’s Reasoning

The court distinguished this case from others involving Section 2036, which applies to transfers with retained life estates. Unlike Section 2036, Section 2041 does not contain language allowing reduction for consideration received at the power’s creation. The court emphasized that “only the value of property included in the gross estate under section 2036 is reduced by the value of compensation received at the time of creation. The value of property included in the gross estate under section 2041 will be reduced only if consideration is received for the exercise or release of the power. ” The court rejected the estate’s argument that the relinquishment of community property rights constituted consideration under Section 2043(a), as this section only applies to consideration received for exercising or releasing the power, not obtaining it. The court noted the legislative intent to treat transfers with retained life estates differently from those with powers of appointment, even though the effect on the estate’s value may be similar.

Practical Implications

This decision clarifies that the full value of property subject to a general power of appointment must be included in the decedent’s gross estate, regardless of what the decedent gave up to obtain the power. Estate planners must consider this when drafting wills and trusts that include powers of appointment. If a client wishes to minimize estate tax, they should be advised that relinquishing property rights to obtain a power of appointment will not reduce the taxable value of the property subject to that power. This case also highlights the importance of understanding the differences between Sections 2036 and 2041 of the Internal Revenue Code when planning estates with retained interests or powers. Subsequent cases, such as Estate of Frothingham v. Commissioner, have followed this reasoning in applying Section 2043(a) to powers of appointment.

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