Estate of Fritz L. Meeske, Deceased, Hackley Bank & Trust, N. A. , Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 72 T. C. 73 (1979)

A marital trust with an equalization clause qualifies for the marital deduction under section 2056(b)(5) if it meets specific statutory requirements, despite the use of a post-death allocation formula.

Summary

In Estate of Meeske v. Commissioner, the decedent established a revocable trust with an equalization clause designed to minimize estate taxes by allocating assets between marital and residual portions. The IRS challenged the estate's marital deduction claim, arguing the spouse's interest was terminable and did not meet section 2056(b)(5) requirements. The Tax Court held that the trust satisfied the section 2056(b)(5) criteria, allowing the deduction, as the spouse received all income from the marital portion for life and had a general power of appointment over it, exercisable in all events.

Facts

Fritz L. Meeske created a revocable inter vivos trust before his death, transferring substantial assets into it. He retained the right to income for life and the ability to invade the corpus. Upon his death, the trust was divided into a marital and a residual portion via an equalization clause, aimed at minimizing estate taxes by equalizing the estates of Meeske and his surviving spouse. The marital portion was placed into a separate trust, from which the spouse was entitled to all income for life, with the power to appoint the entire corpus by will. The estate claimed a marital deduction for the marital portion, which the IRS disallowed.

Procedural History

The estate filed a timely federal estate tax return and claimed a marital deduction. The IRS determined a deficiency and disallowed the deduction, leading the estate to petition the Tax Court. The court reviewed the case and issued a decision under Rule 155, affirming the estate's right to the deduction.

Issue(s)

1. Whether the interest passing to the surviving spouse under the trust is a terminable interest within the meaning of section 2056(b)(1)?
2. Whether the interest passing to the surviving spouse qualifies for the marital deduction under section 2056(b)(5)?

Holding

1. No, because the interest is not conditional or contingent merely because the

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allocation was made post-death; it does not fall under section 2056(b)(1).
2. Yes, because the interest meets the five requirements of section 2056(b)(5): the spouse received all income for life, payable annually, had a power of appointment over the entire marital portion, no other person had a power of appointment over that portion, and the power was exercisable in all events.

Court's Reasoning

The court relied on the precedent set in Estate of Smith v. Commissioner, which involved a similar trust provision. The court rejected the IRS's argument that the interest was terminable under section 2056(b)(1) due to the post-death allocation, as it was not conditional or contingent. For section 2056(b)(5), the court found that the trust met all five statutory requirements: the spouse was entitled to all income from the marital portion for life, payable annually; she had a general power of appointment over the entire marital portion; no other person had a power of appointment over the marital portion; and her power was exercisable in all events, including by will. The court emphasized that the power's effectiveness was not diminished by the delay in knowing the exact value of the trust corpus due to the equalization clause.

Practical Implications

This decision clarifies that trusts with equalization clauses can qualify for the marital deduction under section 2056(b)(5) if they meet the statutory criteria. Attorneys should carefully draft trust provisions to ensure compliance with these requirements, particularly regarding the spouse's income interest and power of appointment. This ruling supports estate planning strategies aimed at minimizing estate taxes through the use of marital trusts with post-death allocation formulas. Subsequent cases have applied this ruling, reinforcing its impact on estate planning practices involving marital deductions.

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