Estate of Vera S. Sorenson, Lola L. Bonner, Independent Executrix, Petitioner v. Commissioner of Internal Revenue, Respondent, 72 T. C. 1180 (1979)

A charitable deduction is not allowed for a remainder interest passing to a charity when the decedent had a general power of appointment over the trust assets and did not exercise it, unless the trust qualifies under specific IRC sections.

Summary

Ira Sorenson's will created a trust giving his wife, Vera, a general power of appointment over the "Wife's Share" and a partial power over the "Charitable Share. " Upon Vera's death without exercising these powers, the assets passed to a charitable remainder trust. The IRS denied a charitable deduction under IRC section 2055(e), which restricts deductions for split-interest trusts unless they meet certain criteria. The Tax Court held that Vera's ability to redirect the assets via her power of appointment meant the trust was subject to section 2055(e), and since it did not meet the required criteria, no charitable deduction was allowed. This decision highlights the importance of ensuring trust structures comply with tax laws to secure charitable deductions.

Facts

Ira Sorenson died on May 30, 1969, leaving a will that established two trusts: the "Wife's Share" and the "Charitable Share. " Vera Sorenson, his widow, was granted a general power of appointment over the "Wife's Share" and a limited power over part of the "Charitable Share. " Vera died on February 22, 1974, without exercising these powers. Her will, executed on January 24, 1969, explicitly declined to exercise the power of appointment. The "Wife's Share" assets, valued at $142,949. 06, passed into the "Charitable Share" trust, with the remainder interest going to the State University of Iowa Foundation.

Procedural History

The estate filed a federal estate tax return claiming a charitable deduction for the remainder interest passing to the charity. The IRS issued a deficiency notice denying the deduction. The estate petitioned the U. S. Tax Court, which heard the case and ruled in favor of the Commissioner, denying the charitable deduction.

Issue(s)

1. Whether the Estate of Vera Sorenson is entitled to a charitable deduction under IRC section 2055(a)(2) for the value of the remainder interest in a trust passing to a charitable organization upon Vera's failure to exercise her general power of appointment over the trust corpus.
2. If the estate is entitled to a charitable deduction, what is the proper method of computation of the amount of the deduction?

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Holding

1. No, because the trust did not meet the requirements of IRC section 2055(e)(2) for a charitable remainder annuity trust, unitrust, or pooled income fund, and Vera had the right to change the disposition of the assets through her power of appointment.
2. This issue was not addressed as the court held that no charitable deduction was allowed.

Court's Reasoning

The court applied IRC section 2055(e), which restricts charitable deductions for split-interest trusts unless they meet specific criteria. The "Wife's Share" trust was not a charitable remainder annuity trust, unitrust, or pooled income fund as defined by sections 664 and 642(c)(5). The court reasoned that Vera's general power of appointment over the "Wife's Share" gave her the ability to redirect the assets, thus subjecting the trust to section 2055(e). The court rejected the estate's argument that section 2055(e) did not apply because Vera could not change her husband's will, emphasizing that her power of appointment allowed her to affect the disposition of the assets. The court also dismissed the estate's reliance on state law to interpret the will, stating that federal tax law prevails in determining taxability. The decision was influenced by the policy of the Tax Reform Act of 1969 to limit charitable deductions for split-interest trusts to prevent abuse.

Practical Implications

This decision underscores the importance of ensuring that trusts meet the specific criteria of IRC sections 664 and 642(c)(5) to secure a charitable deduction for remainder interests. Estate planners must carefully structure trusts to comply with these requirements, especially when a general power of appointment is involved. The ruling may impact estate planning strategies, encouraging the use of trusts that qualify for deductions under section 2055(e). Businesses and individuals planning charitable giving through trusts should consult with tax professionals to ensure compliance with current tax laws. Subsequent cases, such as *Estate of Rogers v. Helvering*, have reinforced the principle that federal tax law, not state law, governs the taxability of property subject to a power of appointment.

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