Estate of Thompson v. Commissioner, 74 T. C. 867 (1980)

Claims against an estate must be filed within the statutory period to be valid, and oral compromises of such claims are not enforceable under Indiana law.

Summary

In Estate of Thompson v. Commissioner, the court addressed whether an estate could deduct a debt owed by the decedent, which was not formally claimed within the statutory six-month period under Indiana law but was later satisfied. The IRS disallowed the deduction, arguing the claim was barred. The court held that under Indiana's strict nonclaim statute, the estate's executor could not enforce an oral agreement to compromise the claim made after the period expired, thus disallowing the deduction. This decision underscores the necessity of timely filing claims against estates and the limitations on oral agreements in probate law.

Facts

Bessie L. Thompson died on June 10, 1974, and her estate was administered in Indiana. Prior to her death, Thompson borrowed $50,000 from Clinton County Bank & Trust Co. , due on May 28, 1975. The executor published notice to creditors on September 18, 1974, with the claims period expiring on March 18, 1975. The bank did not file a claim within this period but after its expiration, the executor executed a series of promissory notes to satisfy the debt, claiming these were based on an oral compromise reached before the period ended. The IRS disallowed a deduction for this debt on the estate's tax return.

Procedural History

The executor filed a Federal estate tax return claiming a deduction for the debt, which was disallowed by the IRS in a notice of deficiency issued on November 28, 1977. The case then proceeded to the U. S. Tax Court, where the estate sought to uphold the deduction based on the alleged oral compromise.

Issue(s)

1. Whether a claim against an estate, not filed within the statutory period under Indiana law but later satisfied, can be deducted from the estate's gross estate under section 2053(a)(3) of the Internal Revenue Code.

Holding

1. No, because under Indiana law, the claim was not validly compromised within the statutory period, thus it was barred and not deductible under section 2053(a)(3).

Court's Reasoning

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The court applied Indiana's nonclaim statute, which requires claims against an estate to be filed within six months of the first published notice to creditors or be forever barred. The court emphasized that Indiana law does not allow for the enforcement of claims through oral agreements or compromises made after this period. The court cited In re Estate of Ropp, where an oral promise to pay an estate obligation was held unenforceable, and distinguished this case from others where the Ithaca Trust doctrine was misapplied to claims against estates. The court rejected the estate's argument that subsequent notes executed by the executor were valid compromises of the original debt, as they were executed after the statutory period and lacked court approval.

Practical Implications

This decision reinforces the strict enforcement of nonclaim statutes in probate law, emphasizing that creditors must timely file claims against estates to preserve their rights. Practitioners must advise clients to adhere strictly to these deadlines, as oral agreements to compromise claims post-period are generally not enforceable. The ruling may affect estate planning and creditor relations, prompting more formal and timely claims processes. Subsequent cases have continued to uphold the principles set in Thompson, particularly in jurisdictions with similar nonclaim statutes, affecting how estates handle and report debts for tax purposes.

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