Estate of William Rubinow, Deceased, Merrill B. Rubinow and Charlotte Goltz, Executors, Petitioners v. Commissioner of Internal Revenue, Respondent, 75 T. C. 486 (1980)

A widow's allowance under Connecticut law and a life estate received by a surviving spouse following a disclaimer do not qualify for the federal estate tax marital deduction as they are terminable interests.

Summary

William Rubinow's will provided bequests to his wife, children, and educational institutions. After his death, his wife and children disclaimed their interests, and the wife received a $20,000 widow's allowance and a life estate in one-third of the estate. The Tax Court held that neither the widow's allowance nor the life estate qualified for the marital deduction under IRC Section 2056 due to their terminable nature under Connecticut law. The court's decision hinged on the discretion of the Probate Court to determine the allowance's vesting and termination, and the statutory provision for a life estate rather than an absolute interest following the disclaimer.

Facts

William Rubinow died on January 19, 1972, leaving a will that bequeathed specific devises to educational institutions, a life estate in the family home to his wife Mary, and established a trust for her support. His three children and wife were also beneficiaries. On March 6, 1972, Mary Rubinow applied for and received a $20,000 widow's allowance, which was ordered to vest retroactively and not terminate upon her death or remarriage. On March 16, 1972, Mary and the children disclaimed their interests under the will, reserving any rights under intestate succession laws. The estate claimed a marital deduction of $355,013. 38, which the IRS disallowed, leading to the petition before the Tax Court.

Procedural History

The IRS determined a deficiency in the estate's federal estate tax and disallowed the claimed marital deduction. The estate's executors petitioned the Tax Court, which upheld the IRS's determination, ruling that neither the widow's allowance nor the interest received by the wife following the disclaimer qualified for the marital deduction.

Issue(s)

1. Whether the widow's allowance provided by Connecticut law qualifies for the marital deduction under IRC Section 2056?
2. Whether the share of the estate received by the widow following her disclaimer of her interest under the will qualifies for the marital deduction under IRC Section 2056?

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Holding

1. No, because the Connecticut widow's allowance is a terminable interest under Connecticut law, subject to the discretion of the Probate Court, and thus does not qualify for the marital deduction.
2. No, because following the disclaimer, the widow received at most a life estate in one-third of the estate, which is a terminable interest and therefore does not qualify for the marital deduction.

Court's Reasoning

The court's reasoning focused on the terminable interest rule under IRC Section 2056(b). For the widow's allowance, the court applied Connecticut law, which grants the Probate Court discretion to determine whether to make the allowance, its amount, and whether it vests retroactively and does not terminate upon the widow's death or remarriage. The court found that the allowance's terminability is contingent on future judicial action, making it ineligible for the marital deduction under *Jackson v. United States*. Regarding the interest following the disclaimer, the court applied Connecticut General Statutes Section 46-12, which provides a life use of one-third of the estate when a valid will exists, rather than an absolute interest. The court reasoned that since the will remained partially valid after the disclaimers, the wife's interest was terminable and thus did not qualify for the marital deduction. The court also considered but rejected arguments based on subsequent statutory amendments and prior case law.

Practical Implications

This decision clarifies that for federal estate tax purposes, a widow's allowance and life estate following a disclaimer under Connecticut law are terminable interests and thus do not qualify for the marital deduction. Practitioners must carefully consider the impact of state law on the marital deduction, particularly when advising clients on estate planning involving disclaimers and allowances. The decision underscores the importance of understanding the interplay between state probate laws and federal tax rules. Subsequent legislative changes in Connecticut, which were not applicable to this case, indicate a shift towards aligning state law with federal tax objectives, but this case serves as a reminder of the historical challenges in achieving such alignment. Attorneys should advise clients to structure estates to avoid terminable interests if seeking to maximize the marital deduction, and consider the potential for future legislative changes to impact estate planning strategies.

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