Estate of Edwin C. Weiskopf, Deceased, Anne K. Weiskopf and Solomon Litt, Executors, Petitioner v. Commissioner of Internal Revenue, Respondent, 77 T. C. 135 (1981)

A trust ceases to be a beneficiary of an estate for tax attribution purposes when it receives its full distribution and irrevocably settles its tax liability with the estate.

Summary

Estate of Weiskopf involved the tax treatment of stock sales by an estate to related corporations. The estate distributed stock to trusts for the decedent's grandchildren and entered into a tax apportionment agreement, approved by the New York Surrogate's Court, that fixed the trusts' estate tax liability. The Tax Court held that the trusts were no longer beneficiaries of the estate at the time of the stock sales, as they had received their full distribution and irrevocably settled their tax liability. This decision severed the attribution of stock ownership from the trusts to the estate under IRC section 318, allowing the estate's stock sales to be treated as capital gains rather than dividends.

Facts

Edwin C. Weiskopf died in 1968, owning substantial stock in five corporations. His will directed that Technicon U. S. preferred stock be transferred to trusts for his grandchildren. The estate sold stock in four other corporations: Technicon Ireland, Technicon Australia, Technicon Canada, and Mediad. The estate and the trusts entered into a tax apportionment agreement on December 12, 1968, which was approved by the New York Surrogate's Court on December 30, 1968. Under this agreement, the trusts paid the estate $631,072. 29 as their share of estate taxes, based on valuations at the time of Weiskopf's death.

Procedural History

The Commissioner of Internal Revenue issued notices of deficiency for the estate's income tax for the years 1969, 1970, and 1971, and for estate tax. The estate petitioned the U. S. Tax Court for a redetermination of these deficiencies. The parties settled the estate tax issue, resulting in a refund to the estate. The sole remaining issue before the Tax Court was whether the estate's stock sales should be treated as capital gains or dividends under the constructive ownership rules of IRC section 318.

Issue(s)

1. Whether the trusts were still beneficiaries of the estate at the time of the stock sales, such that the estate constructively owned stock in the corporations through the trusts under IRC section 318?

Holding

1. No, because the trusts had received their full distribution and irrevocably settled their estate tax liability with the estate, they were no longer considered beneficiaries of the estate for the purposes of IRC section 318.

Court’s Reasoning

The court relied on Treasury Regulation section 1. 318-3(a), which states that a person ceases to be a beneficiary of an estate when they have received all entitled property, no longer have a claim against the estate, and there is only a remote possibility that the estate will seek the return of property or payment from the beneficiary. The court found that the tax apportionment agreement, approved by the Surrogate’s Court, irrevocably determined the trusts’ estate tax liability. Despite the possibility of subsequent adjustments to the estate’s value, the agreement permanently fixed the trusts’ liability to the estate. The court distinguished Estate of Webber v. United States, where no such agreement had been made. The court also noted that Commissioner v. Estate of Bosch did not apply, as the issue was the effect of the agreement between the estate and trusts under New York law, not the binding effect of the Surrogate’s Court decree on the IRS.

Practical Implications

This decision clarifies that a trust can cease to be a beneficiary of an estate for tax attribution purposes through a combination of full distribution and an irrevocable tax apportionment agreement. Estates and trusts can use such agreements to plan their tax liabilities and avoid attribution of stock ownership under IRC section 318. Practitioners should ensure that such agreements are properly documented and approved by the relevant state court to be effective. This case may influence how estates structure distributions and tax apportionment to minimize tax liabilities. Later cases applying this principle include Estate of O’Neal v. Commissioner, where a similar agreement was upheld.

