Estate of Minnie L. Boeshore, Deceased, Lincoln National Bank & Trust Company of Fort Wayne and Melvin V. Ehrman, Executors, Petitioners v. Commissioner of Internal Revenue, Respondent, 78 T. C. 523 (1982)

A charitable unitrust interest can be deductible for estate tax purposes even if it follows a private unitrust interest, as IRS regulations adding such restrictions are invalid.

Summary

In Estate of Boeshore, the Tax Court ruled that a charitable unitrust interest could be deducted for estate tax purposes despite IRS regulations suggesting otherwise. Minnie Boeshore's estate devised a remainder to a charitable trust, with payments split between private beneficiaries and charity. The IRS disallowed the deduction for the charitable portion due to a regulation requiring the charitable interest to begin at the decedent's death. The court invalidated this regulation, finding it inconsistent with the statute's intent to allow deductions for unitrust interests that follow private interests. Additionally, the court determined that the valuation of a separate charitable remainder trust should be based on the date of death, using the 6% interest rate tables.

Facts

Minnie L. Boeshore's will devised the residue of her estate to a charitable remainder unitrust. The trust was to pay a unitrust amount equal to 6% of the trust's annual fair market value. During the life of her surviving spouse, Jay F. Boeshore, 70% of this amount was to be paid to him and the remaining 30% to their daughter and two grandchildren. After Jay's death, 58% of the unitrust amount would continue to be paid to the daughter and grandchildren, while 42% would go to charity. Upon the death of all individual beneficiaries, the remainder would pass to charity. Separately, Minnie and Jay had previously created an irrevocable trust, with the remainder passing to charity upon the death of the survivor.

Procedural History

The IRS determined a deficiency in the estate tax due to the disallowance of a deduction for the charitable unitrust interest in the testamentary trust, citing IRS regulations. The estate challenged this in the U. S. Tax Court, which heard the case and ruled in favor of the estate, invalidating the regulation. The court also addressed the valuation of the charitable remainder in the separate trust created by Minnie and Jay.

Issue(s)

1. Whether a Federal estate tax deduction is allowable for the present value of a charitable unitrust interest that follows a private unitrust interest.
2. Whether the valuation of a charitable remainder interest from a separate inter

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vivos trust should be calculated using the 3 1/2% or 6% interest rate tables.

Holding

1. Yes, because the IRS regulation disallowing the deduction when the charitable unitrust interest follows a private interest is invalid and inconsistent with the statute's intent.
2. No, because the valuation of the charitable remainder interest must be made at the decedent's date of death using the 6% interest rate tables, as the 3 1/2% tables apply only to estates of decedents dying before December 31, 1970.

Court's Reasoning

The court found that the IRS regulation, which disallowed deductions for charitable unitrust interests that do not begin at the decedent's death or are preceded by private interests, added restrictions not present in the statute. The court reasoned that the primary purpose of the statute was to prevent manipulation of trust investments, not to preclude deductions based on the sequence of payments. The court cited Congressional intent to allow deductions for charitable interests in prescribed forms, such as unitrusts, regardless of the sequence of payments. The court also noted that the regulation's restrictions were inconsistent with the treatment of charitable remainder interests, which are deductible even when preceded by private interests. Regarding the valuation of the separate trust, the court applied the 6% interest rate tables applicable to estates of decedents dying after December 31, 1970, rejecting the estate's argument for using the 3 1/2% tables in effect when the trust was created.

Practical Implications

This decision clarifies that IRS regulations cannot add restrictions to statutes that Congress did not intend. Estate planners can now structure charitable unitrusts with confidence that the charitable interest will be deductible, even if it follows a private interest, as long as the interest is in a prescribed form. This ruling may encourage more flexible estate planning that combines charitable and private interests. The decision also confirms that charitable remainder interests are valued at the date of death, using the applicable interest rate tables, impacting the calculation of estate tax deductions. Subsequent cases, such as Estate of Blackford v. Commissioner, have reinforced this approach to charitable deductions in split-interest trusts.

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