

## ***Estate of Gawne v. Commissioner, 82 T. C. 486 (1984)***

The unified credit under section 2010(c) must be reduced by 20% of the specific exemption claimed for gifts considered made by the decedent under gift-splitting provisions.

### **Summary**

In *Estate of Gawne v. Commissioner*, the Tax Court ruled that the unified credit for estate tax purposes must be adjusted to account for gifts considered made by the decedent under gift-splitting rules. The decedent's wife made gifts between September 8, 1976, and January 1, 1977, which were treated as half-made by the decedent. The court held that the unified credit should be reduced by 20% of the specific exemption claimed for these gifts, rejecting the estate's argument that only gifts actually made by the decedent should be considered. This decision underscores the importance of considering all taxable gifts, including those under gift-splitting, when calculating estate tax credits.

### **Facts**

James O. Gawne's wife made gifts between September 8, 1976, and January 1, 1977. Both Gawne and his wife consented to treat these gifts as made half by each under section 2513. Gawne claimed a remaining specific exemption of \$18,389.38 on his gift tax return for these gifts. Gawne died on August 22, 1977, and his estate claimed a unified credit of \$30,000 without adjusting it under section 2010(c). The Commissioner argued that the unified credit should be reduced by 20% of the specific exemption claimed for the gifts considered made by Gawne.

### **Procedural History**

The case was brought before the U. S. Tax Court after the Commissioner determined a deficiency in Gawne's estate tax. The estate filed a petition contesting this determination. The Tax Court issued a fully stipulated decision under Rule 122, ultimately ruling in favor of the Commissioner.

### **Issue(s)**

1. Whether the unified credit under section 2010(c) must be reduced by 20% of the specific exemption claimed for gifts considered made by the decedent under the gift-splitting provisions of section 2513.

### **Holding**

1. Yes, because the court interpreted section 2010(c) to include gifts considered made by the decedent under gift-splitting, consistent with the legislative intent to treat all taxable gifts similarly for estate and gift tax purposes.

## **Court's Reasoning**

The court's decision was based on the interpretation of section 2010(c) and its legislative history. The court noted that the phrase "gifts made by the decedent" in section 2010(c) was intended to include gifts considered made under gift-splitting. The court referenced prior cases like *Norair v. Commissioner* and *Ingalls v. Commissioner*, which treated gifts considered made under section 2513 as taxable for gift tax purposes. The legislative history of the Tax Reform Act of 1976 indicated Congress's intent to reduce disparities between lifetime and death transfers. The court rejected the estate's argument that only gifts actually made by the decedent should be considered, finding that the legislative history did not support such a distinction. The court emphasized that section 2010(c) was a transitional rule to prevent double tax benefits.

## **Practical Implications**

This decision impacts how estates calculate the unified credit under section 2010(c), requiring consideration of gifts made under gift-splitting provisions. Attorneys must ensure that clients understand the potential reduction in the unified credit due to prior use of specific exemptions for gifts considered made by the decedent. This ruling aligns the treatment of gifts for estate and gift tax purposes, promoting consistency in tax planning. It also influences future cases involving similar issues, as seen in *Estate of Renick v. Commissioner*, where the constitutionality of section 2010(c) was unsuccessfully challenged. Practitioners should be aware of this decision when advising clients on estate and gift tax strategies to avoid unexpected tax liabilities.