Estate of C. S. Alexander, Deceased, Branch Banking & Trust Company, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 82 T. C. 34 (1984)

A fixed dollar amount in a trust can qualify as a "specific portion" for the marital deduction under Section 2056(b)(5) of the Internal Revenue Code.

Summary

The case involved the estate of C. S. Alexander, where the decedent's will established a residuary trust, directing the trustee to allocate a fixed dollar amount as the "wife's share," intended to maximize the marital deduction. The Commissioner challenged the deduction, arguing that a fixed dollar amount did not meet the "specific portion" requirement under Section 2056(b)(5). The Tax Court ruled that the regulation requiring a "fractional or percentile share" was invalid as applied to the case, allowing the fixed dollar amount to qualify for the marital deduction, thereby upholding the intent to equalize estate taxation between community property and common law states.

Facts

C. S. Alexander died in 1977, leaving a will that created a residuary trust. The trust was divided into two parts: the "wife's share," calculated to maximize the marital deduction, and the "balance. " The wife's share was a fixed dollar amount determined by a formula clause, and the surviving spouse, Mary R. Alexander, was entitled to all income from the trust and a testamentary power of appointment over the wife's share. The Commissioner challenged the estate's claim for a marital deduction, arguing that the fixed dollar amount did not qualify as a "specific portion" under the applicable estate tax regulations.

Procedural History

The executor of the estate filed a timely federal estate tax return and claimed a marital deduction for the wife's share. The Commissioner issued a deficiency notice disallowing the deduction, leading the executor to petition the U. S. Tax Court. The Tax Court heard the case and ruled in favor of the estate, holding that the fixed dollar amount qualified as a "specific portion" for the marital deduction.

Issue(s)

1. Whether a fixed dollar amount can qualify as a "specific portion" under Section 2056(b)(5) of the Internal Revenue Code for purposes of the marital deduction.
2. Whether the regulation requiring a "fractional or percentile share" to qualify as a "specific portion" is valid as applied to this case.

Holding

1. Yes, because the term “specific portion” as used in the statute is not limited to a “fractional or percentile share,” and a fixed dollar amount can qualify for the marital deduction.
2. No, because the regulation requiring a “fractional or percentile share” is invalid as applied to this case, as it improperly restricts the scope of the deduction intended by Congress.

Court’s Reasoning

The court’s decision was based on the legislative history and purpose of the marital deduction, which aimed to equalize estate taxation between community property and common law states. The court found that the term “specific portion” in Section 2056(b)(5) was intended to be broadly interpreted to allow for estate splitting, and that the regulation’s requirement of a “fractional or percentile share” unduly restricted this intent. The court relied on prior judicial decisions, such as *Gelb v. Commissioner* and *Northeastern Pa. Nat. B. & T. Co. v. United States*, which had similarly rejected the Commissioner’s position. The court emphasized that the fixed dollar amount approach did not frustrate the congressional goal of ensuring that all property would be taxed in the estate of the surviving spouse if not consumed. The dissenting opinion argued for deference to the regulation, but the majority found that the regulation was not consistent with the statute’s purpose.

Practical Implications

This decision broadens the scope of what can be considered a “specific portion” for marital deduction purposes, allowing estates to utilize fixed dollar amounts in trusts to maximize the deduction. It impacts estate planning by providing more flexibility in structuring trusts to achieve tax benefits. The ruling reaffirms the importance of congressional intent in interpreting tax statutes and may influence future challenges to IRS regulations that restrict statutory language. Practitioners should consider this ruling when drafting wills and trusts to ensure that clients can take full advantage of the marital deduction. Subsequent cases, such as *Estate of Meeske v. Commissioner*, have continued to apply and distinguish this ruling, reinforcing its significance in estate tax law.

