Estate of Ethel P. Green, Deceased, David L. Green, Executor v. Commissioner of Internal Revenue, 82 T. C. 843 (1984)

Annuity benefits received by beneficiaries of public school employees may be excluded from the decedent's gross estate under IRC section 2039(c)(3) if the employer is an educational organization exempt from federal income tax.

Summary

In Estate of Green v. Commissioner, the Tax Court held that an annuity purchased by the New York City Board of Education for a public school teacher, Ethel P. Green, was excludable from her gross estate under IRC section 2039(c)(3). The court found the Board to be an educational organization under IRC section 170(b)(1)(A)(ii) and exempt from tax under IRC section 501(a). The decision clarified that public school employees' annuities could be treated similarly to those of private school employees for estate tax purposes, despite the Board's governmental status, as long as it met the criteria of an educational organization exempt from taxation. This ruling has significant implications for the estate planning of public school employees and the tax treatment of their retirement benefits.

Facts

Ethel P. Green, a public school teacher employed by the Board of Education of the City of New York, participated in the City of New York Teachers' Tax Deferred Annuity Program. The Board purchased an annuity contract for Green's benefit, which paid a benefit of $28,411. 07 to a named beneficiary after her death in 1976. Green's estate initially included $27,805. 44 of the annuity benefit in her gross estate but later filed an amended return claiming the annuity was excludable under IRC section 2039(c)(3).

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate's federal estate tax, prompting the estate to petition the Tax Court. The case was submitted fully stipulated, and the Tax Court ultimately ruled in favor of the estate, holding that the annuity benefit was excludable from Green's estate under IRC section 2039(c)(3).

Issue(s)

1. Whether the annuity contract purchased by the New York City Board of Education for Ethel P. Green's benefit is excludable from her gross estate under IRC section 2039(c)(3).

Holding

1. Yes, because the New York City Board of Education is an educational organization

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under IRC section 170(b)(1)(A)(ii) and exempt from tax under IRC section 501(a), making the annuity benefit excludable from Green's estate under IRC section 2039(c)(3).

Court's Reasoning

The Tax Court analyzed whether the New York City Board of Education met the criteria of an educational organization under IRC section 170(b)(1)(A)(ii) and was exempt from tax under IRC section 501(a). The court rejected the Commissioner's argument that the Board was not exempt because it had not filed for a determination letter or revenue ruling. Citing Savings Feature of Relief Dept. of B & O R. R. Co. v. Commissioner, the court held that an organization's failure to file for exemption does not preclude it from being exempt if it meets the statutory requirements. The court also determined that the Board was an educational organization despite its supervisory role over community school districts, as it maintained control over the educational system. The court further dismissed the Commissioner's contention that the Board's governmental function precluded it from being a section 501(a) organization, referencing Estate of Johnson v. Commissioner, where a state university was found to meet the same criteria. The court concluded that the Board's regulatory and investigative powers were incidental to its educational function and did not disqualify it from being a section 501(a) organization.

Practical Implications

This decision extends the estate tax exclusion under IRC section 2039(c)(3) to annuities purchased by public school boards for their employees, treating them similarly to private educational institutions. Legal practitioners should advise public school employees that their retirement annuities may be excluded from their gross estates, provided their employer meets the criteria of an educational organization exempt under IRC section 501(a). This ruling may influence how public school systems structure their retirement programs and could affect the estate planning strategies of their employees. Subsequent cases have followed this precedent, reinforcing the applicability of section 2039(c)(3) to public school employees' annuities.

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