Estate of Leach v. Commissioner, 82 T. C. 952 (1984)

Annuities payable to a surviving spouse from charitable remainder annuity trusts do not qualify for the marital deduction if they constitute terminable interests under IRC § 2056(b).

Summary

Anne B. Leach transferred stock to three charitable remainder annuity trusts, with annuities payable to herself and then her husband, with the remainder to charities. Upon her death, the estate sought a marital deduction for the annuities. The Tax Court held that the annuities were terminable interests ineligible for the marital deduction because they would terminate upon the husband's death, passing to charities. Additionally, under Florida law, the annuities were exempt from estate tax apportionment, with taxes charged to the trust corpora, reducing the charitable deduction.

Facts

Anne B. Leach transferred Coca-Cola stock to three charitable remainder annuity trusts in 1973 and 1975. The trusts were to pay annuities to Leach during her life, and upon her death, to her husband if he survived her. Upon the death of the last to die, the remaining assets were to be distributed to charitable remaindermen designated in Leach's will. Her will provided that 50% of her adjusted gross estate would be left to a marital trust, with the stated desire to obtain the maximum marital deduction. The will also directed that all taxes be paid from the residuary estate.

Procedural History

The estate filed a Federal estate tax return and amended return in 1977 and 1978. The Commissioner determined a deficiency in estate tax and income tax liabilities. The estate petitioned the U. S. Tax Court, which held that the annuities were nondeductible terminable interests and that they were exempt from estate tax apportionment under Florida law.

Issue(s)

1. Whether the annuities payable to the surviving spouse from the charitable remainder annuity trusts qualify for the marital deduction under IRC § 2056?
2. If the annuities do not qualify for the marital deduction, whether any portion of the Federal estate taxes should be charged to the annuities under the Florida apportionment statute?

Holding

1. No, because the annuities constitute terminable interests under IRC § 2056(b), as

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they will terminate upon the surviving spouse's death and pass to charitable remaindermen.
2. No, because under the Florida apportionment statute, the annuities are temporary interests exempt from estate tax apportionment, with taxes charged to the trust corpora.

Court's Reasoning

The court applied IRC § 2056(b), which disallows a marital deduction for terminable interests that may pass to a third party upon termination. The annuities were deemed terminable interests because they would terminate upon the surviving spouse's death, with the trust assets passing to charities. The court relied on prior cases like Estate of Rubin and Sutton, and the Supreme Court's decision in Meyer, which treated similar annuity arrangements as ineligible for the marital deduction. The court also cited the Senate committee report on the predecessor statute to § 2056, which supported the view that annuities payable to a surviving spouse followed by payments to another person do not qualify for the deduction. Regarding apportionment, the court interpreted Florida Statutes § 733. 817 to exempt the annuities from estate tax apportionment as temporary interests, charging taxes to the trust corpora. This interpretation was based on the statute's language and the lack of any Florida adoption of a New York exception for common law annuities.

Practical Implications

This decision impacts estate planning involving charitable remainder annuity trusts by clarifying that annuities payable to a surviving spouse from such trusts do not qualify for the marital deduction if they are terminable interests. Estate planners must consider alternative structures to achieve the desired tax benefits. The ruling also affects the application of state apportionment statutes, particularly in Florida, where temporary interests like annuities are exempt from estate tax apportionment, potentially reducing the value of charitable deductions. Subsequent cases have applied this ruling, and it has influenced the drafting of wills and trust agreements to ensure clarity on tax apportionment and the qualification for marital deductions.

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