Estate of Kincaid v. Commissioner, 85 T. C. 25 (1985)

The full maximum marital deduction, subject only to the 50% limitation, is allowable when recomputing estate tax for the purpose of calculating the section 691(c) deduction for income in respect of a decedent.

Summary

In Estate of Kincaid, the court addressed the calculation of the section 691(c) deduction for income in respect of a decedent (IRD) received by the widow of Garvice Kincaid. The key issue was whether to include IRD in the recomputation of the marital deduction when calculating the estate tax attributable to IRD. The court held that the full maximum marital deduction, limited only by the 50% of the adjusted gross estate, should be allowed in the recomputation, resulting in a deduction for the widow. This ruling ensures that the deduction aligns with the purpose of section 691(c), which is to offset estate taxes on IRD included in the decedent's estate.

Facts

Garvice Kincaid's will included a formula maximum marital deduction bequest. After his death in 1975, his widow, Nelle W. Kincaid, received payments from a contract with Kentucky Finance Co. (KFC), which were classified as income in respect of a decedent (IRD). These payments were included in her income tax returns for 1976 and 1977. The estate tax return for Garvice Kincaid's estate included the value of the right to these KFC payments in the gross estate, and they were eligible for the marital deduction. The estate's assets were divided into a marital and nonmarital part, with the marital part funded by assets equal to the maximum marital deduction, less the value of the KFC payments.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Nelle W. Kincaid's income tax for 1976 and 1977 due to the inclusion of the KFC payments as IRD. The estate of Nelle W. Kincaid, who died during the proceedings, challenged the calculation of the section 691(c) deduction for the estate tax attributable to the IRD. The case was submitted under Tax Court Rule 122, and the court focused on the method of recomputing the estate tax to determine the appropriate section 691(c) deduction.

Issue(s)

1. Whether the full maximum marital deduction, subject only to the 50% limitation, should be allowed when recomputing the estate tax for the purpose of calculating the section 691(c) deduction for income in respect of a decedent?

Holding

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1. Yes, because the purpose of section 691(c) is to provide a deduction to offset the estate tax attributable to IRD, and the full maximum marital deduction aligns with this purpose when sufficient non-IRD assets are available to fund the marital bequest.

Court's Reasoning

The court's reasoning focused on the purpose of section 691(c), which is to offset estate taxes attributable to IRD. The court noted that the formula bequest in Garvice Kincaid's will required the marital share to be funded to the maximum marital deduction, limited by 50% of the adjusted gross estate. Since there were sufficient non-IRD assets in the estate to fully fund this deduction, the court ruled that the full maximum marital deduction should be allowed in the recomputation of the estate tax. The court rejected the Commissioner's argument, which relied on Revenue Ruling 67-242 and certain regulations, as those were not applicable to a formula maximum marital deduction bequest. The court also distinguished the case from Chastain v. Commissioner, noting that the marital deduction situation differs from charitable deductions. The court emphasized that the allocation of assets between marital and nonmarital shares should not affect the calculation of the section 691(c) deduction.

Practical Implications

This decision has significant implications for estate planning and tax calculations involving income in respect of a decedent. It clarifies that when calculating the section 691(c) deduction, the full maximum marital deduction should be considered in the recomputation of the estate tax, provided there are sufficient non-IRD assets to fund the marital bequest. This ruling may encourage estate planners to structure wills with formula maximum marital deduction bequests to maximize tax benefits for surviving spouses. It also serves as a reminder that the allocation of assets between marital and nonmarital shares should not influence the calculation of the section 691(c) deduction. Subsequent cases involving similar issues may need to consider this ruling when determining the appropriate method for calculating the section 691(c) deduction.

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