Estate of Dean A. Chenoweth, Deceased, Julia Jenilee Chenoweth, Personal Representative, Petitioner v. Commissioner of Internal Revenue, Respondent, 88 T. C. 1577 (1987)

The value of a controlling interest in stock passing to a surviving spouse for marital deduction purposes may include an additional element of value due to the control factor.

Summary

Dean Chenoweth's estate owned all the stock in Chenoweth Distributing Co. His will bequeathed 51% of the stock to his widow, qualifying for the marital deduction, and 49% to his daughter. The estate argued that the controlling 51% block should be valued higher for deduction purposes due to its control over the company. The Commissioner moved for summary judgment, asserting that the deduction should be limited to a strict 51% of the total stock value. The Tax Court denied the motion, holding that the estate could potentially demonstrate an additional value for the controlling interest, presenting a material fact in dispute.

Facts

Dean A. Chenoweth died owning all 500 shares of Chenoweth Distributing Co. , valued at $2,834,033 for estate tax purposes. His will bequeathed 255 shares (51%) to his widow, Julia Jenilee Chenoweth, and 245 shares (49%) to his daughter, Kelli Chenoweth. The 51% interest gave Julia complete control over the company under Florida law. The estate's initial tax return claimed a marital deduction of $1,445,356 for Julia's share, but later argued for an increased value of $1,996,038, including a 38. 1% control premium.

Procedural History

The estate filed a timely federal estate tax return and subsequently petitioned the Tax Court to increase the marital deduction based on the control premium. The Commissioner moved for summary judgment, arguing that no control premium could be added to the marital deduction. The Tax Court denied the Commissioner's motion, finding that the control premium issue presented a material fact in dispute.

Issue(s)

1. Whether the estate may value the 51% controlling interest in Chenoweth Distributing Co. stock passing to the surviving spouse at a higher value than a strict 51% of the total stock value for purposes of the marital deduction under section 2056?

Holding

1. No, because the Tax Court denied the Commissioner's motion for summary

judgment, finding that the estate could potentially demonstrate an additional value for the controlling interest due to the control factor, presenting a material fact in dispute.

Court’s Reasoning

The Tax Court’s decision hinged on the distinction between valuing assets for inclusion in the gross estate under section 2031 and valuing them for the marital deduction under section 2056. For section 2031, the court recognized that a controlling interest may have an additional value due to control, as reflected in the regulations and prior cases. However, section 2056 focuses on the value of the specific interest passing to the surviving spouse, which in this case included the control element. The court cited *Provident National Bank v. United States* and *Ahmanson Foundation v. United States* to support the notion that changes in asset characteristics due to the will’s distribution plan can affect their value for deduction purposes. The court rejected the Commissioner’s argument that the marital deduction must be strictly proportional to the gross estate value, finding that the control premium presented a material fact in dispute requiring further evidence.

Practical Implications

This decision allows estates to argue for a higher marital deduction when a controlling interest in a closely held company passes to the surviving spouse. Practitioners should be prepared to present evidence of the control premium’s value, which may require expert testimony and market analysis. The ruling may encourage estate planning strategies that maximize the marital deduction by bequeathing controlling interests to spouses. However, the exact amount of any control premium remains a factual determination, and practitioners must carefully document their valuation methodology. This case has been cited in subsequent decisions, such as *Estate of True v. Commissioner*, where similar issues of valuing controlling interests for deduction purposes were considered.