Estate of James U. Thompson, Deceased, Susan T. Taylor, Personal Representative, Petitioner v. Commissioner of Internal Revenue, Respondent, 89 T. C. 619, 1987 U. S. Tax Ct. LEXIS 133, 89 T. C. No. 43 (1987)

A disclaimer is ineffective for special use valuation if the disclaimant accepts consideration for the disclaimer, even if paid by non-estate parties.

Summary

In Estate of Thompson v. Commissioner, the U. S. Tax Court addressed whether farmland could be valued under special use valuation under Section 2032A of the Internal Revenue Code. The decedent's will included a life income interest to a non-qualified heir, Marie S. Brittingham, who later disclaimed this interest in exchange for $18,000 from the decedent's daughters. The court ruled that Brittingham's disclaimer was ineffective because she accepted consideration, disqualifying the properties from special use valuation. Additionally, the court upheld the fair market valuations of the properties as reported by the Commissioner's expert, rejecting the estate's lower valuations.

Facts

James U. Thompson owned four farms in Dorchester County, Maryland, at the time of his death in 1982. His will established a trust that managed these farms, distributing net annual income as follows: 30% each to his daughters Susan and Helen for life, the lesser of 2% or $2,000 to Marie S. Brittingham until her death or remarriage, and the rest to be reserved or distributed to his daughters. Upon the death of the last survivor of the daughters and Brittingham, the trust would terminate, and the property would be distributed to the daughters' issue or charitable organizations. Brittingham disclaimed her interest in exchange for $18,000 from Susan and Helen. The estate elected special use valuation under Section 2032A for parts of two farms on its estate tax return.

Procedural History

The Commissioner determined a deficiency in the estate's federal estate tax, leading to a trial before the U. S. Tax Court. The estate sought to elect special use valuation for segments of the farms, while the Commissioner argued that the election was invalid due to Brittingham's interest and the subsequent disclaimer. The court also had to determine the fair market value of the four farms.

Issue(s)

1. Whether the estate may elect special use valuation under Section 2032A for the farm properties given Brittingham's interest and subsequent disclaimer?
2. What is the fair market value of the four farm properties in the decedent's estate?

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Holding

1. No, because Brittingham's disclaimer was ineffective for federal estate tax purposes due to her acceptance of consideration, disqualifying the properties from special use valuation.
2. The fair market values as determined by the Commissioner and reported on the original estate tax return were upheld as correct.

Court's Reasoning

The court found that Brittingham's life income interest was an interest in the property for special use valuation purposes, as she could affect the disposition of the property under state law. The court applied Section 2518, which governs disclaimers, and found that Brittingham's acceptance of $18,000 in exchange for her disclaimer constituted an acceptance of the benefits of the interest, rendering the disclaimer ineffective under Section 2518(b)(3). The court rejected the estate's argument that payment by the daughters was irrelevant, emphasizing that Brittingham received the estimated value of her interest. Regarding fair market value, the court found Williamson's appraisal, used by the Commissioner, to be more reliable than Mills', used by the estate, due to Williamson's detailed analysis and adjustments based on comparable sales.

Practical Implications

This decision underscores the importance of ensuring that disclaimers comply strictly with tax regulations, particularly the prohibition against accepting consideration. Estate planners must advise clients that payments for disclaimers, even from non-estate parties, invalidate the disclaimer for federal estate tax purposes. This case also reaffirms the need for rigorous and well-documented appraisals in estate tax disputes, as the court favored the more detailed and credible appraisal. Subsequent cases, such as Estate of Davis v. Commissioner and Estate of Clinard, have distinguished Thompson by noting that contingent interests may not disqualify property from special use valuation if their vesting is remote and speculative. Practitioners should carefully structure estate plans to avoid similar pitfalls and ensure that any special use valuation elections are supported by valid disclaimers and accurate valuations.

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