Longue Vue Foundation v. Commissioner, 90 T. C. 150 (1988)

A charitable estate tax deduction is allowed for a bequest that is voidable by forced heirs if the heirs do not exercise their rights.

Summary

Edith R. Stern's will left her home and garden to the Longue Vue Foundation, a charitable organization, along with a $5 million endowment. Louisiana law allowed her forced heirs to claim up to two-thirds of her estate, rendering the charitable bequest voidable. Despite this, the heirs waived their rights, and the estate claimed a charitable deduction. The IRS disallowed the deduction, arguing the bequest's voidability created uncertainty. The Tax Court held that because the bequest was effective upon death and the heirs did not exercise their rights, the deduction was allowable. This ruling clarifies that the mere possibility of a bequest being voided does not preclude a charitable deduction if the heirs ultimately do not challenge it.

Facts

Edith R. Stern died on September 11, 1980, leaving a will that devised her home and garden, valued at $12,437,257, to the Longue Vue Foundation. She also bequeathed a $5 million cash endowment. Under Louisiana law, her two surviving children and the children of her deceased daughter were considered forced heirs, entitled to two-thirds of her estate. Edgar B. Stern, Jr. , one of the heirs, disclaimed his share within nine months of her death. Three years later, the remaining heirs waived their rights to their legitime interests, allowing the Foundation to take possession of the property.

Procedural History

The IRS issued a notice of deficiency on December 4, 1984, disallowing the charitable deduction and asserting a $9,244,917 estate tax deficiency. Longue Vue Foundation and the Estate of Edith R. Stern filed a petition with the U. S. Tax Court for summary judgment on January 26, 1988. The Tax Court granted the petitioners' motion for summary judgment, allowing the charitable deduction.

Issue(s)

1. Whether a charitable estate tax deduction is allowable under section 2055 for a testamentary bequest to charity that is voidable by the exercise of a forced heir's legitime interest under Louisiana law.

Holding

1. Yes, because the charitable bequest was effective upon the decedent's death and the forced heirs did not exercise their rights to void it.

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Court’s Reasoning

The Tax Court reasoned that under Louisiana law, the charitable bequest was voidable, not void, meaning it was effective upon the decedent’s death unless challenged by the forced heirs. The court relied on precedent like Varick v. Commissioner, which allowed deductions for voidable bequests not challenged by heirs. The court also noted that the IRS’s regulations under section 2055 supported this interpretation, as they require a contingency to be so remote as to be negligible to disallow a deduction. The forced heirs’ failure to exercise their rights rendered the contingency negligible. The court rejected the IRS’s argument that disclaimers under section 2518 were necessary, as the property passed directly from the decedent to the charity, not as a result of any disclaimer by the heirs.

Practical Implications

This decision clarifies that charitable bequests that are voidable under state law but not challenged by heirs can still qualify for estate tax deductions. It encourages testators to make charitable bequests without fear of losing deductions due to potential, but unexercised, heir challenges. Practically, it means that estates can claim deductions for charitable bequests even in states with forced heirship laws, provided the heirs do not contest the will. This ruling may influence estate planning strategies, particularly in jurisdictions with similar laws, and could affect how estate tax audits are conducted, as the IRS may need to monitor whether heirs challenge such bequests post-mortem.

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