***Estate of Casper W. Preisser v. Commissioner of Internal Revenue*, T.C. Memo. 1990-235**

When a will directs that debts be paid from the residuary estate, and the residuary estate is left to the surviving spouse, the marital deduction is reduced by the amount of those debts, regardless of a lower state court's interpretation to the contrary.

Summary

The Tax Court held that the marital deduction for the Estate of Casper W. Preisser must be reduced by the amount of a debt owed by the decedent, despite a state probate court order suggesting otherwise. Decedent's will directed that all debts be paid from the residuary estate, which was bequeathed to his surviving spouse. The court reasoned that under Kansas law, and consistent with the will's plain language, the debt was payable from the residuary estate, thus reducing the value passing to the spouse and consequently the marital deduction. The Tax Court emphasized that it is not bound by lower state court decisions and must follow the rulings of the state's highest court.

Facts

Casper W. Preisser died testate in 1982, survived by his wife and two sons. Decedent had made a loan to his son, J.G., for $210,615.97, the same amount he owed to the Federal Land Bank. Decedent's will devised real property to his sons and the residuary estate to his wife. The will directed that all debts be paid from the residuary estate and required J.G. to repay his loan to the estate within 120 days of decedent's death. The beneficiaries agreed J.G. could satisfy his debt by paying the estate's debt to the bank. The estate did not include J.G.'s debt in the gross estate but deducted decedent's debt to the bank without reducing the marital deduction.

Procedural History

The IRS issued a notice of deficiency, arguing the marital deduction should be reduced by the bank debt. The estate then obtained an ex parte order from a Kansas State District Court, construing the will as intending the bank debt to encumber property devised to J.G., not the estate. The Tax Court considered the IRS's deficiency determination.

Issue(s)

1. Whether the marital deduction claimed by the Estate of Casper W. Preisser should be reduced by the amount of the decedent's debt to the Federal Land Bank.

Holding

1. Yes. The marital deduction must be reduced because the decedent's will

© 2025 SCOTUSreports.com. All rights reserved.

directed that all debts be paid from the residuary estate, which was left to the surviving spouse; thus, the debt reduces the value of property passing to the spouse.

Court's Reasoning

The court relied on Section 2056(a) of the Internal Revenue Code, which allows a marital deduction for property passing to a surviving spouse, but this value is reduced by obligations. The court cited Treasury Regulation § 20.2056(b)-4(b). Rejecting the Kansas State District Court's order, the Tax Court invoked *Commissioner v. Estate of Bosch*, 387 U.S. 456 (1967), stating it is only bound by the highest state court's decisions. Following Kansas Supreme Court precedent in *In re Cline's Estate*, 170 Kan. 496, 227 P.2d 157 (1951), the Tax Court found that a general will provision for debt payment requires debts to be paid from the residuary estate unless the will clearly indicates otherwise. The will in Preisser directed debt payment from the residuary estate without exception. The court stated, "As the Supreme Court of Kansas emphasized in *In re Cline's Estate*, 'where provisions of a will are clear and not inconsistent with other provisions the jurisdiction of courts is limited to interpretation, which does not include reformation.'" The Tax Court concluded the will's clear terms required the debt to be paid from the residuary estate, diminishing the marital deduction.

Practical Implications

This case underscores that federal tax law, specifically the marital deduction, is significantly impacted by the clear language of a will, particularly regarding debt payment. Estate planners must draft wills with precision, especially when intending for debts to be handled in a way that maximizes the marital deduction. Lower state court interpretations are not controlling for federal tax purposes; reliance must be placed on the highest state court's rulings. In similar cases, attorneys should analyze the will's debt payment clause and relevant state supreme court precedent to accurately predict the marital deduction's availability. This case serves as a reminder that general debt payment clauses in wills typically burden the residuary estate, affecting the marital deduction if the residue passes to the surviving spouse. It also highlights the importance of considering the *Bosch* rule when state court orders are obtained in estate tax matters.

© 2025 SCOTUSreports.com. All rights reserved.