Estate of Slater v. Commissioner, 89 T. C. 521 (1987)

Gifts made within three years of death are considered in the gross estate for the purpose of determining eligibility for special use valuation under section 2032A, but are not taxed as part of the gross estate.

Summary

In Estate of Slater, the Tax Court ruled that gifts of stock made by the decedent to his sons within three years of his death were not includable in the gross estate for tax purposes but were considered for determining eligibility for special use valuation under section 2032A. The court also upheld the IRS's valuation of a 14. 5-acre land parcel at $3,000, rejecting the estate's claim of worthlessness. This decision clarifies the scope of section 2035(d)(3)(B), emphasizing that such gifts are only relevant for specific estate tax provisions and not for general estate tax inclusion.

Facts

Thomas G. Slater, who managed Rose Hill Farm in Virginia, died in 1984. Before his death, he gifted shares of Rose Hill Farm, Inc. to his sons in 1983 and 1984, aiming to keep the farm in the family and minimize estate taxes. The estate included these gifts on its tax return, seeking to apply special use valuation under section 2032A. The IRS, however, included these gifts as adjusted taxable gifts, not as part of the gross estate, and valued a separate 14. 5-acre land parcel at $3,000, which the estate argued was worthless.

Procedural History

The IRS issued a notice of deficiency, asserting an estate tax deficiency. The estate filed a petition in the Tax Court, contesting the treatment of the gifts and the valuation of the land. The case was fully stipulated and submitted under Tax Court Rule 122.

Issue(s)

1. Whether gifts of stock made by the decedent to his sons within three years of his death should be included in and taxed as part of his gross estate, or included in the tentative tax base and taxed as adjusted taxable gifts.
2. Whether the fair market value of the decedent's interest in a 14. 5-acre parcel of land was correctly determined by the IRS at $3,000.

Holding

1. No, because the gifts are considered in the gross estate only for determining eligibility for special use valuation under section 2032A, not for inclusion in the gross estate for tax purposes.
2. Yes, because the estate failed to provide sufficient evidence to challenge the IRS's

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valuation of the land.

Court’s Reasoning

The court analyzed section 2035(d)(3)(B), which specifies that gifts made within three years of death are considered in the gross estate for the limited purpose of determining eligibility for special use valuation under section 2032A. The court emphasized the legislative intent to prevent deathbed transfers designed to qualify an estate for favorable tax treatment, without including such gifts in the gross estate for general tax purposes. The court also noted that the gifts must be valued at fair market value as adjusted taxable gifts, not under special use valuation. Regarding the land valuation, the court found the estate’s evidence insufficient to overcome the IRS’s valuation, which was supported by local tax assessments and a study by the Virginia Department of Taxation.

Practical Implications

This decision clarifies that gifts made within three years of death are not automatically included in the gross estate for tax purposes, but are relevant only for specific estate tax provisions like special use valuation. Estate planners must carefully consider the timing and nature of gifts to minimize tax liability, as gifts made close to death may still impact eligibility for certain tax benefits. The ruling also underscores the importance of providing robust evidence when challenging IRS valuations of estate assets. Subsequent cases have followed this precedent, reinforcing the limited scope of section 2035(d)(3)(B) in estate tax calculations.

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