Estate of Zella Hall, Deceased, Andrew Boyko, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 93 T. C. 745 (1989)

A judicial proceeding to reform a charitable remainder trust must be commenced within 90 days after the estate tax return filing deadline to qualify for a charitable deduction.

Summary

Zella Hall's will established a charitable remainder trust that failed to meet the form requirements for a charitable deduction under IRC § 2055(e)(2)(A). The executor sought to reform the trust after the IRS audit began, claiming it was a 'qualified reformation' under IRC § 2055(e)(3). The U. S. Tax Court held that no judicial proceeding was timely commenced within the 90-day period after the estate tax return filing deadline, as required by IRC § 2055(e)(3)(C)(iii). Therefore, the trust's major defects could not be corrected post-audit, and the charitable deductions were disallowed.

Facts

Zella Hall died in 1983, leaving a will that established a trust paying income to her son for life, with the remainder to six charities. The trust did not meet the form requirements for a charitable deduction under IRC § 2055(e)(2)(A). In 1986, after an IRS audit began, the executor sought to reform the trust to comply with the statute. The Ohio Attorney General approved the reformation in 1986, and the Probate Court retroactively corrected a form to indicate the will contained a charitable trust subject to reformation.

Procedural History

The executor filed the estate tax return in 1984, claiming charitable deductions. The IRS disallowed the deductions in 1987. The executor petitioned the U. S. Tax Court, which held that no timely judicial proceeding was commenced to reform the trust within the statutory deadline.

Issue(s)

1. Whether a judicial proceeding to reform the trust was commenced within 90 days after the estate tax return filing deadline as required by IRC § 2055(e)(3)(C)(iii).

Holding

1. No, because the executor did not commence a judicial proceeding to reform the trust until 1986, well after the October 16, 1984, deadline set by IRC § 2055(e)(3)(C)(iii).

Court's Reasoning

The court applied the plain language of IRC § 2055(e)(3)(C)(iii), which requires a judicial proceeding to be commenced within 90 days after the estate tax return filing deadline. The court rejected the executor's argument that filing a probate court form in 1983 constituted commencement of a judicial proceeding, as the form did not seek to change the trust's terms. The court also noted that the congressional intent behind the statute was to prevent correction of major trust defects after an IRS audit. The court emphasized that the reformation must be commenced before the IRS has an opportunity to audit the return, which did not occur in this case.

Practical Implications

This decision underscores the importance of timely commencing judicial proceedings to reform charitable remainder trusts to qualify for estate tax deductions. Practitioners must be aware of the 90-day deadline after the estate tax return filing date and ensure that any necessary reformation proceedings are initiated before an IRS audit begins. The ruling clarifies that mere filing of probate documents does not suffice as commencement of a judicial proceeding for reformation purposes. Subsequent cases have applied this ruling to similar situations, emphasizing the strict enforcement of the statutory deadline.

