***Estate of Fletcher v. Commissioner, 94 T. C. 704 (1990)***

Federal regulations preempt state law in determining the inclusion of jointly held assets and payable on death (P. O. D. ) designations in a decedent's gross estate.

**Summary**

In Estate of Fletcher, the Tax Court ruled that federal law governed the inclusion of U. S. savings bonds and a certificate of deposit (CD) in the estate of Margaret A. Fletcher, who died shortly after her husband in a common accident. The court held that upon the husband's death, Margaret became the sole owner of the co-owned U. S. savings bonds and the beneficiary of the P. O. D. CD under federal regulations and Oklahoma state law, respectively. This decision highlights the supremacy of federal law over state law in estate taxation concerning jointly held assets and P. O. D. designations, impacting how such assets are treated in estate planning and taxation.

**Facts**

Margaret A. Fletcher and her husband, Jack B. Fletcher, Sr. , died in a car accident within hours of each other on September 18-19, 1984. They owned 45 U. S. savings bonds as co-owners and each had a $100,000 CD with a P. O. D. designation naming the other as beneficiary. The husband's estate included the full value of the bonds and his CD, while Margaret's estate included her CD and a portion of the bonds and her husband's CD. The IRS determined that Margaret's estate should include the full value of both the bonds and her husband's CD, leading to a tax deficiency.

**Procedural History**

The IRS issued a notice of deficiency to Margaret's estate, asserting that the full value of the co-owned bonds and the husband's CD should be included in her estate. Margaret's estate filed a petition with the U. S. Tax Court to contest this determination.

**Issue(s)**

1. Whether the full value of the co-owned U. S. savings bonds should be included in Margaret's gross estate under federal law.
2. Whether the full value of the husband's CD, designated P. O. D. to Margaret, should be included in her gross estate under Oklahoma state law.

**Holding**

1. Yes, because under federal regulations, Margaret became the sole owner of the bonds upon her husband's death, and thus the full value was includable in her estate.
2. Yes, because under Oklahoma law, the P. O. D. designation was valid, making

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Margaret the sole owner of the CD upon her husband's death, and thus the full value was includable in her estate.

### Court's Reasoning

The court applied federal regulations governing U. S. savings bonds, which state that upon the death of one co-owner, the surviving co-owner becomes the sole owner. This preempted any contrary state law or court decisions. The court cited United States v. Chandler to support this application. For the CD, the court interpreted Oklahoma's statutory provisions enacted in 1979, which allowed for P. O. D. designations and superseded prior court rulings against such designations. The court rejected arguments that P. O. D. designations required an inter vivos gift or compliance with the Statute of Wills, emphasizing the clear language of the Oklahoma statute. The court also noted that federal law would preempt any state law if there were a conflict, but found no such conflict in this case.

### Practical Implications

This decision clarifies that federal regulations govern the inclusion of jointly held U. S. savings bonds in an estate, regardless of state law or probate court decisions. For estate planners and attorneys, this underscores the importance of understanding federal preemption in estate taxation. The ruling also affirms the validity of P. O. D. designations under Oklahoma law, affecting how such designations are used in estate planning. Practitioners should consider these findings when advising clients on the structuring of jointly held assets and the use of P. O. D. designations to avoid unintended tax consequences. Subsequent cases, such as those involving similar federal preemption issues, may reference Estate of Fletcher to support the application of federal law over state law in estate taxation matters.

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