Estate of Perrin V. Burdick, Deceased, Thomas A. Burdick, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 96 T. C. 168 (1991)

An estate tax charitable deduction is not allowed for direct payments to a charity made solely to circumvent the requirements of section 2055(e)(2)(A) regarding non-qualifying split-interest charitable bequests.

Summary

In Estate of Burdick v. Commissioner, the decedent's will established a trust with a charitable remainder interest that did not qualify for an estate tax deduction under section 2055(e)(2)(A). The executor attempted to qualify for the deduction by terminating the charitable interest and making a direct payment of $60,000 to the charity. The Tax Court held that such a payment, made solely to circumvent the statutory requirements, did not qualify for a charitable deduction. This case underscores the importance of adhering to the specific forms of charitable remainder interests required by the tax code to claim an estate tax deduction.

Facts

Perrin V. Burdick died testate on April 20, 1984. His will established a trust that provided a life income interest to his brother, Thomas A. Burdick, and upon his brother's death, the trust principal was to be split equally between a nephew and the First Church of Christ, Scientist. The estate claimed a charitable deduction for the church's 50% remainder interest. The IRS disallowed the deduction because the remainder interest did not meet the requirements of section 2055(e)(2)(A). In an attempt to qualify for the deduction, the executor terminated the charitable remainder interest and made a direct payment of $60,000 to the church.

Procedural History

The estate filed a Federal estate tax return claiming a charitable deduction for the remainder interest. The IRS issued a notice of deficiency disallowing the deduction. The estate then terminated the charitable remainder interest and made a direct payment to the charity, seeking to claim a deduction for this payment. The case proceeded to the United States Tax Court, which upheld the IRS's disallowance of the charitable deduction.

Issue(s)

1. Whether a direct payment to a charity made solely to circumvent the requirements of section 2055(e)(2)(A) qualifies for an estate tax charitable deduction under section 2055(a)(2).

Holding

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1. No, because where the sole purpose of the payment is to circumvent the requirements of section 2055(e)(2)(A), an estate tax charitable deduction will not be allowed for the direct payment to the charity.

Court's Reasoning

The court applied the rule that charitable remainder interests must comply with the specific forms outlined in section 2055(e)(2)(A) to qualify for an estate tax deduction. The court noted that the estate could have utilized the relief provisions under section 2055(e)(3) to reform the charitable interest but did not do so. The court distinguished cases where modifications were made in good faith due to will contests or settlements from the present situation, where the sole purpose was tax avoidance. The court cited Flanagan v. United States and Estate of Strock v. United States to support its position that direct payments made solely to circumvent statutory requirements do not qualify for deductions. The court emphasized the policy of promoting charitable giving but ruled that the specific statutory requirements must be met.

Practical Implications

This decision clarifies that estates cannot bypass the statutory requirements for charitable remainder interests by terminating such interests and making direct payments to charities. Estate planners must ensure that charitable remainder interests comply with section 2055(e)(2)(A) or utilize the relief provisions of section 2055(e)(3) to reform non-qualifying interests. This case may influence estate planning practices to prioritize compliance with the tax code over attempts to circumvent it through direct payments. Later cases such as Thomas v. Commissioner and Estate of Burgess v. Commissioner have cited Burdick in upholding similar disallowances of charitable deductions.

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