Estate of Ruby Miller Whittle, Deceased, Citizens National Bank of Decatur, Trustee, Petitioner v. Commissioner of Internal Revenue, Respondent; John G. and Ruby M. Whittle Trust Dated 3/17/1981, Citizens National Bank of Decatur, Trustee, Petitioner v. Commissioner of Internal Revenue, Respondent, 97 T. C. 362 (1991)

Interest on deferred estate tax payments does not reduce the value of property transferred for purposes of computing the credit for tax on prior transfers when the property was received by the decedent as a surviving joint tenant.

Summary

In Estate of Whittle v. Commissioner, the court addressed whether interest on a deferred estate tax should reduce the value of property transferred from a predeceased spouse to a surviving joint tenant when calculating the credit for tax on prior transfers. John G. Whittle's estate elected to defer estate tax payments, and upon Ruby Miller Whittle's death, the IRS argued the interest on the deferred tax should reduce the transferred property's value for credit computation. The Tax Court held that since Ruby received the property as a surviving joint tenant without a probate estate, the interest liability, which was incurred post-transfer to protect her ownership, should not affect the credit calculation.

Facts

John G. Whittle died in 1981, leaving most of his estate to his wife, Ruby Miller Whittle, as a surviving joint tenant. Ruby filed an estate tax return for John's estate and elected to defer payment of the estate tax under IRC section 6166. Upon Ruby's death in 1985, the IRS claimed that the interest paid on the deferred tax should reduce the value of the property transferred from John to Ruby for computing the credit for tax on prior transfers under IRC section 2013.

Procedural History

The IRS issued a notice of deficiency to Ruby's estate for $19,584, asserting that the interest on the deferred estate tax should be deducted from the value of the property transferred from John to Ruby. The estate and the John G. and Ruby M. Whittle Trust filed petitions with the U. S. Tax Court challenging this determination. The case was submitted fully stipulated under Rule 122.

Issue(s)

1. Whether the value of property transferred to Ruby Miller Whittle as a surviving joint tenant must be reduced by the interest assessed and paid on the deferred estate tax of John G. Whittle's estate for purposes of computing the credit for tax on prior transfers under IRC section 2013.

Holding

1. No, because the interest on the deferred estate tax was a liability created after John’s death to protect Ruby’s ownership as a surviving joint tenant, not to preserve John’s estate.

Court’s Reasoning

The court reasoned that Ruby received the property as a surviving joint tenant, not as a devisee, legatee, or heir, and thus obtained it free from any obligations of John’s estate. The court distinguished the interest liability from an administrative expense of John’s estate, noting that there was no probate estate, and the interest was incurred by Ruby to protect her ownership. The court emphasized that the interest liability was not a claim against John’s estate but rather akin to a mortgage Ruby might have placed on her interest. The court cited IRC section 6324(a)(2), which imposes direct liability for estate tax on a surviving joint tenant, but noted that this section does not extend to interest on deferred estate tax payments. The court concluded that the interest should not reduce the value of the property transferred for purposes of computing the credit for tax on prior transfers.

Practical Implications

This decision clarifies that when property is transferred to a surviving joint tenant, interest on deferred estate tax payments does not reduce the value of the property for computing the credit for tax on prior transfers. This ruling impacts estate planning by reinforcing the benefits of joint tenancy in estate tax deferral strategies. Practitioners should consider the timing and nature of liabilities when planning for the credit for tax on prior transfers. The decision may influence how estates structure their tax payments and the use of IRC section 6166, particularly in scenarios involving joint tenancy. Subsequent cases have generally followed this principle, further solidifying its impact on estate tax planning and administration.

