Estate of John D. Manscill, Deceased, Frances D. Manscill West, Executrix v. Commissioner of Internal Revenue, 98 T. C. 30 (1992)

A surviving spouse's qualifying income interest for life in a trust is disqualified from marital deduction if any person has the power to appoint any part of the trust corpus to someone other than the surviving spouse.

Summary

John D. Manscill's estate claimed a marital deduction for property transferred into "Fund B" under his will, arguing it qualified as Qualified Terminable Interest Property (QTIP). The will allowed the Trustee, with the surviving spouse's approval, to use Fund B's corpus for their daughter's support. The court held that this power to appoint corpus to a third party, even with the spouse's consent, disqualified Fund B from QTIP status, denying the marital deduction. The decision emphasizes the strict statutory requirements for QTIP eligibility and the importance of clear trust provisions to meet these criteria.

Facts

John D. Manscill died testate in 1982, survived by his wife, Frances, and daughter, Nicole. His will established two funds: Fund A, which qualified for the marital deduction, and Fund B, which was contested. Fund B directed the Trustee to pay all income to Frances for life, with the remainder to Nicole upon Frances' death. The will also allowed the Trustee, with Frances' prior approval, to invade Fund B's corpus for Nicole's support, based on her individual needs.

Procedural History

Frances, as executrix, filed a Federal estate tax return and elected to treat Fund B as QTIP. The Commissioner disallowed the marital deduction for Fund B, leading to a deficiency notice. The estate petitioned the U. S. Tax Court, which upheld the Commissioner's determination that Fund B did not qualify as QTIP due to the power to appoint corpus to Nicole.

Issue(s)

1. Whether Fund B, as established under John D. Manscill's will, constitutes Qualified Terminable Interest Property (QTIP) under Section 2056(b)(7)(B) of the Internal Revenue Code, thus qualifying for the marital deduction.

Holding

1. No, because the Trustee had the power, with the surviving spouse's approval, to appoint part of the corpus of Fund B to Nicole, violating the requirement that no person have such a power during the surviving spouse's lifetime.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court applied Section 2056(b)(7)(B)(ii)(II), which requires that no person have a power to appoint any part of the property to anyone other than the surviving spouse during their lifetime. The will’s provision allowing the Trustee, with Frances’ approval, to use Fund B’s corpus for Nicole’s support was deemed a power to appoint to someone other than the surviving spouse. The court emphasized the legislative history’s clear intent that this condition be strictly enforced, rejecting arguments that the requirement of the surviving spouse’s approval should mitigate the disqualification. The court also distinguished this case from others where trusts were held to qualify as QTIP, noting that in those cases, no third party could benefit from the trust corpus during the surviving spouse’s life.

Practical Implications

This decision underscores the importance of precise drafting in estate planning to ensure QTIP eligibility. Practitioners must ensure that trust provisions do not allow for any appointment of corpus to third parties during the surviving spouse’s life, even with their consent. This ruling may lead to increased scrutiny of trust language by the IRS and could impact estate planning strategies, particularly in cases where support for other family members is intended. Subsequent cases, such as Estate of Parasson, have been distinguished based on their specific trust language, emphasizing the need for careful drafting to meet QTIP requirements. Estate planners should consider alternative structures, like separate trusts for different beneficiaries, to achieve their clients’ goals while maintaining QTIP eligibility where desired.

© 2025 SCOTUSreports.com. All rights reserved.