Estate of John D. Manscill, Deceased, Frances D. Manscill West, Executrix, Petitioner v. Commissioner of Internal Revenue, Respondent, 98 T. C. 413 (1992)

The surviving spouse must have a qualifying income interest for life, with no power in anyone to appoint the property to any person other than the surviving spouse during their lifetime, for property to qualify for the marital deduction under the QTIP rules.

Summary

In Estate of Manscill v. Commissioner, the U. S. Tax Court ruled that the estate could not claim a marital deduction for property transferred into 'Fund B' under the decedent's will because the surviving spouse did not have a qualifying income interest for life. The will allowed the trustee, with the surviving spouse's prior approval, to invade the corpus of Fund B for the support of the decedent's daughter, which violated the QTIP requirements under section 2056(b)(7)(B)(ii) of the Internal Revenue Code. This decision clarifies that any power to appoint property to someone other than the surviving spouse, even if conditioned on the surviving spouse's approval, disqualifies the property from QTIP treatment.

Facts

John D. Manscill died testate on December 6, 1982, survived by his widow, Frances, and their daughter, Nicole. Manscill's will established two funds: Fund A and Fund B. Fund A provided Frances with the right to all income and the power to withdraw corpus. Fund B directed that the trustee pay all income to Frances but also allowed the trustee, with Frances's prior approval, to invade the corpus for the support of Nicole. The estate sought a marital deduction for Fund B, claiming it was qualified terminable interest property (QTIP).

Procedural History

The estate filed a federal estate tax return and elected to treat Fund B as QTIP. The Commissioner of Internal Revenue determined a deficiency and denied the marital deduction for Fund B. The estate petitioned the U. S. Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether Fund B constitutes qualified terminable interest property (QTIP) under section 2056(b)(7)(B) of the Internal Revenue Code, making it eligible for the marital deduction?

Holding

1. No, because the trustee, with the surviving spouse's prior approval, had the

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power 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.

Court's Reasoning

The court focused on the statutory requirement that no person, including the surviving spouse, have the power to appoint any part of the property to anyone other than the surviving spouse during their life. The court interpreted the will's provision allowing corpus invasion for Nicole's support, even with Frances's approval, as a power to appoint to someone other than Frances. The court emphasized the legislative history of section 2056(b)(7), which clearly states that no such power should exist, including powers held by the surviving spouse or jointly with others. The court rejected the estate's arguments that the requirement of Frances's approval mitigated the power or that payments for Nicole's support were equivalent to payments to Frances. The court distinguished Estate of Parasson, where the surviving spouse was the only beneficiary, and cited cases like Estate of Wheeler and Gelb v. Commissioner to support its interpretation that payments for the benefit of others are considered appointments to them.

Practical Implications

This decision underscores the strict interpretation of QTIP requirements for marital deductions. Estate planners must ensure that no power exists to appoint property to anyone other than the surviving spouse during their lifetime, even if the power requires the spouse's consent. This ruling impacts how trusts are drafted to qualify for QTIP treatment and may require amendments to existing wills and trusts to comply with the court's interpretation. The decision also affects estate tax planning, potentially increasing estate tax liabilities for estates that fail to meet these strict criteria. Subsequent cases, such as Estate of Bowling, have followed this reasoning, solidifying its impact on estate planning practices.

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