Estate of Hazard E. Reeves, Deceased, Alexander G. Reeves, Harry Miller, and The Bank of New York, Co-Executors v. Commissioner of Internal Revenue, 100 T. C. 427 (1993)

The marital deduction must be reduced by the amount of any deduction claimed for the sale of employer securities to an ESOP to prevent double deduction of the same interest.

Summary

In Estate of Reeves v. Commissioner, the estate sought both a marital deduction and a deduction for selling employer securities to an Employee Stock Ownership Plan (ESOP). The estate included the value of Realtron stock in calculating the marital deduction and then claimed an additional deduction for 50% of the sale proceeds under section 2057. The court held that section 2056(b)(9) prohibits double deductions, requiring a reduction in the marital deduction by the amount of the ESOP deduction to avoid deducting the same property interest twice. This decision clarifies how estates must adjust deductions to comply with tax laws and prevents overclaiming deductions that could reduce estate tax liabilities unfairly.

Facts

Hazard E. Reeves died in 1986, owning 511,160 shares of Realtron stock. His will directed the residue of his estate, including the stock, to a trust for his surviving spouse's benefit. In 1987, the executors sold the Realtron shares to the company's ESOP for $2,555,580. On the estate tax return, the executors valued the stock at $5,111,160 as of the date of death and included this in the marital deduction calculation. They also claimed a deduction of $1,277,790 under section 2057, which is 50% of the sale proceeds to the ESOP. The Commissioner argued that this constituted a double deduction, violating section 2056(b)(9).

Procedural History

The estate filed a timely federal estate tax return in 1988, claiming the marital and ESOP deductions. The Commissioner determined a deficiency of over $1 million and the case proceeded to the U. S. Tax Court. The court heard the case based on stipulated facts and issued its opinion in 1993, ruling in favor of the Commissioner.

Issue(s)

1. Whether the marital deduction must be reduced by the amount of the deduction allowed under section 2057 for the sale of employer securities to an ESOP to prevent a double deduction of the same property interest.

Holding

1. Yes, because section 2056(b)(9) prohibits the value of any interest in property

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from being deducted more than once, requiring the marital deduction to be reduced by the amount of the ESOP deduction.

Court’s Reasoning

The court applied the plain language of section 2056(b)(9), which prohibits double deductions under the estate tax provisions. The court noted that the Realtron stock was part of the general estate from which the marital bequest was satisfied. The estate’s inclusion of the stock’s full date-of-death value in the marital deduction and the subsequent claim of half the sale proceeds as an ESOP deduction constituted a double deduction. The court rejected the estate’s arguments, citing the legislative intent behind section 2056(b)(9) to prevent any double deductions, not just those involving charitable and marital deductions. The court emphasized that the value of the surviving spouse’s interest in the stock was deducted once as part of the marital deduction and could not be deducted again under section 2057. The court’s decision was influenced by the policy of ensuring fairness in tax deductions and preventing the estate from claiming more than the value of the property interest.

Practical Implications

This decision has significant implications for estate planning and tax practice. It requires estates to carefully calculate deductions to avoid double-counting the same property interest. Practitioners must now ensure that if an estate claims a deduction under section 2057 for sales to an ESOP, the marital deduction should be reduced accordingly. This ruling may discourage the use of ESOP sales as a tax-saving strategy if not properly accounted for in estate planning. For businesses, it emphasizes the need to align estate planning with tax law to avoid unintended tax liabilities. Subsequent cases have cited Estate of Reeves to clarify the application of section 2056(b)(9) in various contexts, reinforcing the principle against double deductions.

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