Estate of Frances Blow Allen, Deceased, Bank of Oklahoma, N. A. and R. Robert Huff, Co-Executors v. Commissioner of Internal Revenue, 101 T. C. 351 (1993)

The marital deduction is not reduced by administration expenses when those expenses are charged to the income of a nonmarital share, and the will clearly intends to maximize the marital deduction.

Summary

In Estate of Allen v. Commissioner, the decedent's will divided the estate's residue into a marital share and a nonmarital share, with the intent to maximize the marital deduction. Under Oklahoma law, administration expenses were to be charged against income, which in this case was sufficient to cover these costs without affecting the marital share. The Tax Court held that the marital deduction should not be reduced by the amount of these expenses, distinguishing this case from others where the marital share was directly impacted by such charges. This ruling reinforces the principle that the marital deduction's value should not be diminished when the estate's income can absorb administration expenses without burdening the marital share.

Facts

Frances Blow Allen died testate on March 12, 1987, leaving a will that divided the residue of her estate into two shares: a marital share designed to qualify for the marital deduction and a nonmarital share designed to absorb the unified credit. The will explicitly directed that the marital deduction be maximized. Oklahoma law required that administration expenses be charged against income. The executors followed this directive, charging the administration expenses to the estate's income, which was sufficient to cover these costs without impacting the principal of either share.

Procedural History

The estate timely filed a Federal estate tax return, and the IRS determined a deficiency. The estate petitioned the Tax Court, which reviewed the case in light of its prior decision in Estate of Street v. Commissioner, which had been reversed by the Sixth Circuit. The Tax Court distinguished Estate of Street and upheld the estate's position that the marital deduction should not be reduced by the administration expenses.

Issue(s)

1. Whether the marital deduction should be reduced by the amount of administration expenses when those expenses are charged against the income of the estate's nonmarital share under Oklahoma law and the decedent's will.

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Holding

1. No, because the administration expenses were charged to the income of the nonmarital share, which was sufficient to cover those expenses without impacting the marital share, and the will clearly intended to maximize the marital deduction.

Court’s Reasoning

The Tax Court’s decision was based on the interpretation of the will and applicable Oklahoma law. The court noted that the will explicitly directed the maximization of the marital deduction and that Oklahoma law required administration expenses to be charged against income. The court found that the income of the nonmarital share was more than adequate to cover these expenses, thus not affecting the marital share. The court distinguished this case from others where the marital share was directly impacted by administration expenses, such as Estate of Street v. Commissioner, and cited cases where the marital deduction was upheld when expenses were charged to a nonmarital share. The court concluded that there was no material limitation on the surviving spouse’s right to income from the marital share, and thus, the provisions of section 20. 2056(b)-4(a) of the Estate Tax Regulations did not apply to reduce the marital deduction.

Practical Implications

This decision clarifies that when drafting wills, attorneys should carefully consider state law and the allocation of expenses to ensure the marital deduction is maximized. For estates with sufficient income from nonmarital shares to cover administration expenses, this ruling provides a clear precedent that such expenses should not reduce the marital deduction. Estate planners must ensure that the will’s language reflects the intent to maximize the marital deduction and that the allocation of expenses aligns with state law. This case may influence how similar cases are analyzed, particularly in states with similar laws regarding the charging of administration expenses to income. It also underscores the importance of understanding the interplay between federal tax regulations and state probate laws in estate planning.

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