

## ***Estate of Wall v. Commissioner, 101 T. C. 300 (1993)***

The IRS's position can be considered 'substantially justified' even if it loses the case, if it has a reasonable basis in law and fact.

### **Summary**

In *Estate of Wall*, the Tax Court addressed whether trust assets should be included in a decedent's gross estate under sections 2036(a)(2) and 2038(a)(1) of the Internal Revenue Code, and whether the IRS's position was 'substantially justified' under section 7430, justifying denial of the petitioner's request for litigation costs. The court held that the trust assets were not includable and that the IRS's position, though unsuccessful, was 'substantially justified' due to its reasonable basis in law and fact, despite being a case of first impression.

### **Facts**

The decedent established three irrevocable trusts, each with an independent corporate trustee that she could replace with another independent trustee. The trusts granted the trustee sole discretion over distributions. The IRS argued that the trust assets should be included in the decedent's gross estate under sections 2036(a)(2) and 2038(a)(1), citing Rev. Rul. 79-353 and related case law. The petitioner sought litigation costs under section 7430, claiming the IRS's position was not substantially justified.

### **Procedural History**

The Tax Court initially ruled in *Estate of Wall v. Commissioner, 101 T. C. 300 (1993)*, that the trust assets were not includable in the decedent's estate. Following this decision, the petitioner moved for an award of administrative and litigation costs, leading to the supplemental opinion addressing the justification of the IRS's position.

### **Issue(s)**

1. Whether the trust assets were includable in the decedent's gross estate under sections 2036(a)(2) and 2038(a)(1).
2. Whether the IRS's position in the litigation was 'substantially justified' under section 7430.

### **Holding**

1. No, because the decedent's power to replace the trustee did not equate to control over the trust assets.
2. Yes, because the IRS's position had a reasonable basis in law and fact, despite being a case of first impression.

## **Court's Reasoning**

The court applied sections 2036(a)(2) and 2038(a)(1) to determine the includability of trust assets in the estate, finding that the decedent's ability to replace the trustee did not amount to control over the trusts. For the 'substantially justified' issue, the court cited *Wilfong v. United States*, explaining that a position is 'substantially justified' if a reasonable person could think it correct. The court acknowledged the IRS's reliance on Rev. Rul. 79-353 and related cases, even though these were not persuasive, and noted the case's first impression nature. The court concluded that the IRS's position was 'substantially justified' because it was based on a reasonable interpretation of the law and facts, despite the ultimate outcome.

## **Practical Implications**

This decision impacts how litigants approach requests for litigation costs under section 7430, emphasizing that the IRS's position can be 'substantially justified' even if it loses the case, particularly in novel legal situations. Practitioners must be aware that the mere fact of losing does not automatically entitle them to costs if the IRS's argument had a reasonable basis. This case also reaffirms the importance of considering the broader context and policy implications when interpreting tax statutes, especially in areas lacking direct precedent.