Estate of Wetherington v. Commissioner, T. C. Memo. 1997-155

A court may delay entry of decision in an estate tax case to allow the estate to deduct interest on taxes deferred under IRC section 6161.

Summary

In Estate of Wetherington, the Tax Court allowed a delay in entering a decision until the estate's extension request under IRC section 6161 was resolved or the tax was fully paid, whichever came first. This decision was influenced by the precedent set in Estate of Bailly, which allowed similar delays for section 6166 deferrals. The court reasoned that such a delay would prevent the harsh application of IRC section 6512(a), which disallows interest deductions post-decision, and enable the estate to deduct interest on deferred estate taxes as an administrative expense.

Facts

Mary K. Wetherington died on April 8, 1990, leaving an estate primarily consisting of agricultural real property in Florida. The estate filed a tax return in 1991 and made partial payments in 1991 and 1992. In 1995, after selling part of the property, the estate paid additional taxes. The estate requested and was granted a one-year extension under IRC section 6161(a) due to its illiquid assets, with a further extension request pending as of the court's decision.

Procedural History

The IRS determined a deficiency, prompting the estate to file a petition with the Tax Court. The parties settled all issues except for the motion to stay proceedings, which was the focus of this decision. The court had previously delayed entry of decision in similar cases under IRC section 6166, as seen in Estate of Bailly.

Issue(s)

1. Whether the Tax Court should delay entry of decision until the estate's extension request under IRC section 6161(a) is resolved or the estate tax is fully paid, whichever comes first.

Holding

1. Yes, because delaying entry of decision would allow the estate to deduct interest on deferred estate taxes as an administrative expense, consistent with the precedent set in Estate of Bailly and the policy of fairness and justice.

Court's Reasoning

The court applied the precedent set in Estate of Bailly, where a delay in decision entry was granted for section 6166 deferrals, to the current case involving section

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6161(a). The court reasoned that IRC section 6512(a), which disallows interest deductions post-decision, could be harsh on estates with deferred tax payments. By delaying the decision, the court allowed the estate to deduct interest as an administrative expense under IRC section 2053(a), promoting fairness and justice. The court rejected the IRS's arguments that the delay would interfere with its discretion under section 6161(a) or that Congress intended to exclude section 6161(a) from such relief, noting no evidence of Congressional intent to do so. The court directly quoted its concern for fairness from Estate of Bailly, emphasizing the desire to avoid harsh results.

Practical Implications

This decision allows estates with illiquid assets to potentially benefit from delayed decision entry when requesting extensions under IRC section 6161(a), enabling them to deduct interest on deferred estate taxes. Legal practitioners should consider filing similar motions in estate tax cases where liquidity issues may justify tax payment deferrals. The ruling underscores the Tax Court's willingness to apply equitable principles to mitigate the impact of statutory limitations on estates. Subsequent cases have referenced Wetherington to support similar requests for delays, reinforcing its role in estate tax practice. Businesses and estates should plan their tax strategies with this flexibility in mind, especially in agricultural or closely-held business contexts where liquidity can be an issue.

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