Estate of Paul C. Gribauskas v. Commissioner of Internal Revenue, 116 T. C. 142 (2001)

In *Estate of Gribauskas*, the U. S. Tax Court ruled that lottery winnings payable in installments must be valued using actuarial tables under IRC Section 7520, despite restrictions on their transferability. This decision underscores the mandatory use of standardized valuation methods for annuities, impacting how estates calculate taxable values of similar non-assignable future payment rights.

Parties

The petitioner was the Estate of Paul C. Gribauskas, with Roy L. Gribauskas and Carol Beauparlant as co-executors. The respondent was the Commissioner of Internal Revenue.

Facts

In late 1992, Paul C. Gribauskas and his former spouse won a Connecticut LOTTO prize of $15,807,306. 60, payable in 20 annual installments of $790,365. 34 each, starting December 3, 1992. Following their divorce, each was entitled to half of the remaining payments. Gribauskas received his first post-divorce payment in December 1993. On June 4, 1994, Gribauskas died unexpectedly, leaving 18 annual payments of $395,182. 67 each to his estate. The State of Connecticut funded these obligations through commercial annuities, but winners could not assign or accelerate payments.

Procedural History

The estate timely filed a Form 706 on September 11, 1995, electing the alternate valuation date of December 3, 1994. The estate valued the lottery payments at $2,603,661. 02, treating them as an unsecured debt obligation. The Commissioner determined a deficiency of $403,167, valuing the payments at $3,528,058. 22 using Section 7520 tables. The estate petitioned the Tax Court for review.

Issue(s)

Whether the value of the decedent’s interest in the remaining lottery payments must be determined using the actuarial tables prescribed under Section 7520 of the Internal Revenue Code?

Rule(s) of Law

Section 7520 of the Internal Revenue Code requires the valuation of annuities, life interests, terms of years, and remainder or reversionary interests using prescribed actuarial tables. These tables use an interest rate of 120% of the Federal midterm rate for the relevant month. Departure from these tables is permitted only if their use results in an unrealistic or unreasonable value, and a more reasonable and

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realistic method is available.

Holding

The Tax Court held that the decedent's lottery winnings were an annuity within the meaning of Section 7520 and must be valued using the prescribed actuarial tables, rejecting the estate's arguments for a departure from these tables based on the payments' non-assignable nature.

Reasoning

The court analyzed whether the lottery payments constituted an annuity under Section 7520. It distinguished between interests included in the gross estate under Section 2033 (general property inclusion) and Section 2039 (specific annuity inclusion), noting that the classification under Section 2033 did not preclude annuity status under Section 7520. The court defined an annuity broadly, as a fixed sum payable periodically, and found that the lottery payments fit this definition despite lacking a traditional annuity's underlying corpus or assignability. The court rejected the estate's argument that the payments' lack of marketability justified a departure from the actuarial tables, emphasizing that such restrictions do not affect the essential entitlement to fixed payments. The court also noted that case law and regulations support the use of actuarial tables for valuing annuities, even those with restrictions on liquidity.

Disposition

The court's decision was to be entered under Rule 155, affirming the Commissioner's valuation of the lottery payments using Section 7520 tables and allowing for further deduction considerations under Section 2053.

Significance/Impact

The *Estate of Gribauskas* decision reinforces the mandatory use of Section 7520 tables for valuing annuities, including those with restrictions on transferability. This ruling has significant implications for the estate tax valuation of lottery winnings and other similar payment streams, ensuring uniformity and predictability in estate tax assessments. Subsequent courts have cited this decision in affirming the use of actuarial tables for valuing non-traditional annuities, impacting estate planning strategies involving such assets.

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