***Estate of Lucien J. Le Caer v. Commissioner of Internal Revenue, 135 T. C. 288 (U. S. Tax Court 2010)***

In Estate of Le Caer v. Comm'r, the U. S. Tax Court clarified the application of the credit for tax on prior transfers under I. R. C. § 2013, ruling that the credit is limited by the provisions of § 2013(b) and (c). The case involved estates of a married couple where the husband's estate paid estate taxes, and the wife's estate sought to claim a credit for these taxes after her death. The court rejected the estate's attempt to claim the full tax paid as a credit, upholding the statutory limitations and clarifying that state estate taxes do not qualify for the credit. This decision impacts estate planning strategies involving close-in-time deaths.

**Parties**

The petitioners were the Estate of Lucien J. Le Caer, deceased, and the Estate of Marie L. Le Caer, deceased, represented by co-trustees Lorraine Le Caer-Domini and Denise Le Caer Stagner. The respondent was the Commissioner of Internal Revenue. The case was heard at the trial level before the U. S. Tax Court.

**Facts**

Lucien J. Le Caer and Marie L. Le Caer, residents of Nevada, established an inter vivos trust in 1992, which they later restated in 2002. Upon the death of the first spouse, the trust was to be divided into four shares, with Share B intended to qualify for a marital deduction. Lucien died on January 19, 2004, and his estate paid Federal and State estate taxes totaling $225,000. Marie died less than three months later on March 29, 2004. On her estate's Federal estate tax return, a credit was claimed for the taxes paid by Lucien's estate under I. R. C. § 2013. Three years after filing Lucien's return, his estate made an additional protective QTIP election.

**Procedural History**

The Commissioner of Internal Revenue issued notices of deficiency to both estates on September 18, 2007, disallowing the claimed credit under I. R. C. § 2013 for Marie's estate and asserting that the protective QTIP election for Lucien's estate was untimely. Both estates filed timely petitions with the U. S. Tax Court on December 21, 2007. The cases were consolidated for trial, briefing, and opinion. The court's standard of review was de novo, with the burden of proof resting on the petitioners.

**Issue(s)**

Whether the limitations prescribed in I. R. C. § 2013(b) and (c) apply to the credit for tax on prior transfers claimed by Marie Le Caer's estate?

Whether the amount of "the taxable estate of the transferor" for the purposes of I. R. C. § 2013(b) is reduced by the applicable exclusion amount?

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Whether Marie Le Caer's estate may claim a I. R. C. § 2013 credit with respect to the State estate tax paid by Lucien Le Caer's estate?

Whether the value of the property interest Marie received from Lucien's estate for purposes of the I. R. C. § 2013 credit is determined under valuation principles in accordance with 26 C. F. R. § 20. 2013-4, Estate Tax Regs. ?

Whether the QTIP protective election filed by Lucien Le Caer's estate was timely?

**Rule(s) of Law**

I. R. C. § 2013 provides a credit for tax on prior transfers, which is limited by the provisions of § 2013(b) and (c). Section 2013(b) states that the credit shall be an amount which bears the same ratio to the estate tax paid with respect to the estate of the transferor as the value of the property transferred bears to the taxable estate of the transferor, decreased by any death taxes paid with respect to such estate. Section 2013(c) limits the credit to the difference between the net estate tax payable with and without the transferred property included in the decedent's gross estate. The regulations under § 2013, specifically 26 C. F. R. § 20. 2013-2 and § 20. 2013-4, provide further guidance on calculating the credit and valuing the transferred property.

**Holding**

The court held that the limitations of I. R. C. § 2013(b) and (c) apply to the credit for tax on prior transfers claimed by Marie Le Caer's estate. The amount of "the taxable estate of the transferor" for the purposes of § 2013(b) is not reduced by the applicable exclusion amount. Marie's estate may not claim a § 2013 credit with respect to the State estate tax paid by Lucien's estate. The value of the property interest Marie received, a life estate, for purposes of the § 2013 credit is determined under valuation principles in accordance with 26 C. F. R. § 20. 2013-4, Estate Tax Regs. The QTIP protective election filed by Lucien's estate was untimely.

**Reasoning**

The court's reasoning was based on a strict interpretation of the statutory language of I. R. C. § 2013. The court emphasized that § 2013(a) explicitly states that the credit shall be the amount determined under subsections (b) and (c), with no conditions for their application. The court rejected the argument that the taxable estate should be reduced by the applicable exclusion amount, citing the legislative history of § 2013(b) which removed references to exemptions after the introduction of the unified credit in 1976. The court also clarified that the credit applies only to Federal estate taxes, not state estate taxes, due to the specific language in § 2013(a). The valuation of Marie's life estate interest was determined to be in accordance with the regulations, as she received a limited interest. Lastly, the court found the protective QTIP election untimely, as it was not made on the estate tax

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return as required by § 2056(b)(7)(B)(v) and the regulations.

The court addressed counter-arguments by the petitioners, including the assertion that the limitations under § 2013(b) and (c) were unfair and resulted in double taxation. The court found these arguments unpersuasive, stating that any perceived unfairness should be addressed to Congress, not the court, which is bound to apply the statute as written. The court also considered and rejected the petitioners' due process and equal protection arguments, finding no constitutional violation in the application of the statute.

**Disposition**

The court entered a decision for the petitioner in docket No. 29631-07 (Lucien's estate) and entered a decision under Rule 155 in docket No. 30041-07 (Marie's estate).

**Significance/Impact**

This case is significant for its clarification of the credit for tax on prior transfers under I. R. C. § 2013, particularly the application of the limitations in § 2013(b) and (c). It underscores the importance of timely and proper elections, such as the QTIP election, in estate planning. The decision affects estates where close-in-time deaths occur, as it limits the credit to Federal estate taxes and does not allow for the inclusion of state estate taxes. The ruling has been cited in subsequent cases and legal literature as a definitive interpretation of § 2013, guiding estate planners in calculating and claiming the credit. It also reinforces the principle that statutory language is conclusive unless ambiguous, impacting how courts interpret and apply tax laws.

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