Estate of Turner v. Commissioner, T. C. Memo. 2011-209 (Supplemental Opinion), United States Tax Court, 2011

In a significant ruling on estate tax law, the U. S. Tax Court reaffirmed its earlier decision that Clyde W. Turner Sr. ‘s transfer of assets to a family limited partnership was subject to Section 2036, thus including those assets in his gross estate. The court also addressed a novel issue regarding the marital deduction, concluding that the estate could not increase its marital deduction based on assets transferred as gifts before Turner’s death. This decision clarifies the application of Section 2036 and the limits of marital deductions, impacting estate planning strategies involving family limited partnerships.

Parties

The plaintiff in this case is the Estate of Clyde W. Turner, Sr. , with W. Barclay Rushton as the executor, represented by the estate’s legal counsel. The defendant is the Commissioner of Internal Revenue, representing the interests of the U. S. government in tax matters.

Facts

Clyde W. Turner, Sr. , a resident of Georgia, died testate on February 4, 2004. Prior to his death, on April 15, 2002, Turner and his wife, Jewell H. Turner, established Turner & Co. , a Georgia limited liability partnership, contributing assets valued at $8,667,342 in total. Each received a 0. 5% general partnership interest and a 49. 5% limited partnership interest. By January 1, 2003, Turner transferred 21. 7446% of his limited partnership interest as gifts to family members. At the time of his death, he owned a 0. 5% general partnership interest and a 27. 7554% limited partnership interest. The estate reported a net asset value for Turner & Co. of $9,580,520 at the time of Turner’s death, applying discounts for lack of marketability and control to value the partnership interests.

Procedural History

The initial case, Estate of Turner v. Commissioner (Estate of Turner I), resulted in a Tax Court memorandum opinion (T. C. Memo. 2011-209) holding that Turner’s transfer of assets to Turner & Co. was subject to Section 2036, thus including the value of those assets in his gross estate. The estate filed a timely motion for reconsideration under Rule 161, seeking reconsideration of the application of Section 2036 and the court’s failure to address the estate’s alternative position on the marital deduction. The Commissioner filed an objection to the estate’s motion. This supplemental opinion addresses these issues.

Issue(s)

Whether the Tax Court should reconsider its findings regarding the application of Section 2036 to the transfer of assets to Turner & Co. ? Whether the estate can

© 2025 SCOTUSreports.com. All rights reserved.

increase its marital deduction to include the value of assets transferred as gifts before Turner's death, in light of the application of Section 2036?

Rule(s) of Law

Section 2036 of the Internal Revenue Code includes in a decedent's gross estate the value of property transferred by the decedent during life if the decedent retained the possession or enjoyment of, or the right to the income from, the property. Section 2056(a) allows a marital deduction for the value of any interest in property which passes or has passed from the decedent to his surviving spouse, provided that such interest is included in the decedent's gross estate. The regulations under Section 2056(c) define an interest in property as passing from the decedent to any person in specified circumstances, but such interest must pass to the surviving spouse as a beneficial owner to qualify for the marital deduction.

Holding

The Tax Court denied the estate's motion for reconsideration regarding the application of Section 2036, affirming its previous holding that the assets transferred to Turner & Co. are included in Turner's gross estate. The court also held that the estate cannot increase its marital deduction to include the value of assets transferred as gifts before Turner's death because those assets did not pass to the surviving spouse as a beneficial owner.

Reasoning

The court's reasoning on Section 2036 reaffirmed the lack of significant nontax reasons for forming Turner & Co. , noting that the partnership's purpose was primarily testamentary and that Turner retained an interest in the transferred assets. The court dismissed the estate's arguments for reconsideration, finding no substantial errors or unusual circumstances justifying a change in the previous decision.

Regarding the marital deduction, the court reasoned that the assets transferred as gifts before Turner's death did not pass to Jewell as a beneficial owner, thus not qualifying for the marital deduction under Section 2056(a) and the applicable regulations. The court emphasized the policy behind the marital deduction, which is to defer taxation until the property leaves the marital unit, not to allow assets to escape taxation entirely. The court found no legal basis for the estate's argument that the marital deduction could be increased based on assets included in the gross estate under Section 2036 but not passing to the surviving spouse.

The court also considered the structure of the estate and gift tax regimes, noting that allowing a marital deduction for the transferred assets would frustrate the purpose of the marital deduction by allowing assets to leave the marital unit without being taxed. The court rejected the estate's reliance on the formula in Turner's will,

© 2025 SCOTUSreports.com. All rights reserved.

as the assets in question were not available to fund the marital bequest.

Disposition

The Tax Court denied the estate's motion for reconsideration regarding Section 2036 and held that the estate could not increase its marital deduction to include the value of assets transferred as gifts before Turner's death. An appropriate order was issued consistent with the supplemental opinion.

Significance/Impact

This supplemental opinion clarifies the application of Section 2036 in the context of family limited partnerships and the limits of the marital deduction when assets are transferred as gifts before the decedent's death. It reinforces the principle that assets included in the gross estate under Section 2036 do not automatically qualify for the marital deduction if they do not pass to the surviving spouse as a beneficial owner. The decision has significant implications for estate planning involving family limited partnerships, particularly in structuring transfers to minimize estate tax while maximizing the marital deduction. It also underscores the importance of considering the tax implications of lifetime gifts in the context of estate tax planning.

© 2025 SCOTUSreports.com. All rights reserved.