Developments in Disclaimers

Neil Harl

Iowa State University, harl@iastate.edu

Follow this and additional works at: http://lib.dr.iastate.edu/aglawdigest

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, Agriculture Law Commons, and the Public Economics Commons

Recommended Citation


Available at: http://lib.dr.iastate.edu/aglawdigest/vol9/iss3/1
DEVELOPMENTS IN DISCLAIMERS
— by Neil E. Harl*

The long battle over disclaiming interests in jointly-owned property moved a notch closer to conclusion with the publication of new regulations in late December, 1997. The new regulations are effective for disclaimers on or after December 31, 1997.

Disclaiming jointly-held property

Initially, IRS resisted all disclaimers of jointly-owned property interests, maintaining that such interests could be disclaimed only within nine months after creation of the interest. After losing in litigation, IRS came to accept the position that disclaimers of so-called “revocable” joint interests (such as joint bank or brokerage accounts) could be filed within nine months after death, not merely within nine months after creation of the joint interest. Later, after losing two Court of Appeals cases, IRS came to accept joint tenancy disclaimers in land within nine months after death and issued an Action on Decision to that effect. IRS continued, however, to resist disclaimers of interests held in tenancy by the entirety.

However, in regulations issued in late December, 1997 effective for disclaimers on or after December 31, 1997, the Department of the Treasury made several changes in its position on disclaimers:

• Under the new regulations, Treasury accepts disclaimers of interests in tenancy by the entirety property within nine months after death in the same manner as disclaimers of interests in joint tenancy property. The regulations specifically note that disclaimers can be made regardless of whether the interest can be unilaterally severed under local law (which is a feature of joint tenancy ownership but not of tenancy by the entirety).

• For disclaimers on or after December 31, 1997, a surviving joint tenant or tenant by the entirety cannot disclaim any portion of a joint bank, brokerage or other investment account attributable to consideration furnished by the surviving joint tenant or tenant by the entirety.

* Charles F. Curtiss Distinguished Professor in Agriculture and Professor of Economics, Iowa State University; member of the Iowa Bar.

means that 100 percent of a joint account funded by the first joint owner to die can be disclaimed by the survivor. At the same time, no part of a joint account can be disclaimed if the survivor funded the account. A disqualified interest in a joint bank, brokerage or investment account (the creation of which is an incomplete gift for federal gift tax purposes) loses its character as joint property and passes through the decedent’s gross estate with the interest disclaimed subject to inclusion under I.R.C. § 2033 rather than I.R.C. § 2040. The balance of the account not subject to disclaimer retains its character as joint property, and is includable in the gross estate under I.R.C. § 2040.

For joint interests in real property (and presumably for personal property other than bank accounts, brokerage accounts and investment accounts), a gift is deemed to have occurred on creation of the interest where contributions were unequal and only half can be disclaimed.

• The nine month period for disclaiming the interest is based upon the “transfer creating the interest,” rather than upon a “taxable transfer.” This change clarifies that the beginning point for the nine month disclaimer period is not dependent upon the actual imposition of federal estate or gift tax at the time the interest to be disclaimed is created.

Inducements to disclaim

A troublesome area in the past has been the effect of cash gifts received by disclaimants at approximately the time disclaimers were executed and whether such gifts would disqualify the disclaimers. A Tax Court case, Estate of Monroe, held that cash gifts would disqualify the disclaimers. However, that case was reversed and remanded in 1997 to allow disclaimers where the payments were not consideration for the disclaimers and, therefore, those disclaimers were qualified. The Court of Appeals remanded the case to determine whether some of the disclaimers were mutually bargained for which would disqualify the disclaimers.

Quite clearly, any cash gift to a disclaimant raises a red flag: linking the cash gift to the disclaimer such that the disclaimers was considered to be mutually bargained for goes over the line.
FOOTNOTES


3. Dancy v. Comm’r, 872 F.2d 84 (4th Cir. 1989), rev’g, 89 T.C. 550 (1987) (disclaimers of “revocable” interests were qualified; disclaimers of interest in tenancy by entirety in real property not permitted).

4. Kennedy v. Comm’r, 804 F.2d 1332 (7th Cir. 1986), rev’g, T.C. Memo. 1986-3 (period for reasonable time to disclaim surviving spouse’s interest in joint tenancy interest held by decedent runs from date of death and not creation of joint tenancy); McDonald v. Comm’r, T.C. Memo. 1989-140, on rem. from, 853 F.2d 1494 (8th Cir. 1988), rev’g, 89 T.C. 293 (1987) (disclaimer timely where surviving joint tenant made disclaimer within nine months of joint tenant’s death but more than nine months after creation of joint tenancy).


8. Id.


11. Id.


14. Id.


16. Treas. Reg. §§ 20.2041-3(d)(6); 20.2056(d)-2(a),(b); 25.2511-1(c); 25.2514-3(c); 25.2518-1; 25.2518-2(c)(3).


20. Id.