

SUPREME COURT OF OHIO

In re Estate of Roberts

94 Ohio St. 3d 311 (Ohio 2002) · Decided February 27, 2002

SUMMARY

The Ohio Supreme Court held that the estate-tax exclusion in R.C. 5731.09(A) does not apply to funds transferred by a decedent from an employer-sponsored retirement account into an individual retirement account when the employer did not directly contribute to the IRA. Because the decedent’s employer was not a party to or contributor under the IRA agreement, the disputed portion of the rollover IRA was included in the gross estate.

CASE DETAILS

COURT	Supreme Court of Ohio
WRITING FOR THE COURT	Cook, J.; Moyer, C.J.; Douglas, J.; Pfeifer, J.; Resnick, J.; F.E. Sweeney, J.; Lundberg Stratton, J.
JURISDICTION	Ohio
DECIDED	February 27, 2002
DISPOSITION	affirmed
PROCEDURAL POSTURE	The estate appealed the Second District Court of Appeals' reversal of a probate court ruling that excluded the disputed portion of a rollover IRA from the taxable gross estate. The Supreme Court of Ohio allowed a discretionary appeal.
STANDARD OF REVIEW	De novo statutory interpretation
PRECEDENTIAL VALUE	Published, precedential opinion of the Supreme Court of Ohio
PARTIES	Estate of Robert Lawrence Roberts v. Thomas M. Zaino, Tax Commissioner of Ohio

TOPICS

- estate tax
- probate procedure
- statutory interpretation

PRACTICE AREAS

- estate taxation
- probate
- statutory interpretation

QUESTIONS PRESENTED

1. Whether R.C. 5731.09(A) excludes from Ohio's taxable gross estate funds traceable to employer contributions to an employee retirement plan after the decedent transferred those funds to an individual rollover IRA to which the employer did not directly contribute.
2. Whether the second paragraph of R.C. 5731.09(A) is a tax-exemption provision that must be strictly construed against the taxpayer and in favor of taxation.

HOLDINGS

1. The second paragraph of R.C. 5731.09(A) is a tax-exemption provision, so any doubt about its meaning must be resolved in favor of taxation and against the exemption.
2. R.C. 5731.09(A) does not exclude from the taxable gross estate the value of funds transferred by the decedent from an employer-sponsored retirement account to an individual rollover IRA when the employer did not directly contribute to the IRA contract or agreement.

KEY QUOTATIONS

“Under R.C. 5731.09(A), the value of the gross estate includes the value of a rollover IRA that the decedent purchased and to which the decedent’s employer or former employer did not directly contribute by reason of the decedent’s employment.” (317)

“We therefore conclude that the second paragraph of R.C. 5731.09(A) is a tax-exemption provision.” (315)

FACTUAL BACKGROUND

Robert Lawrence Roberts retired from Pioneer Rural Electric Cooperative, whose employee retirement fund had received contributions from both Roberts and Pioneer. After retirement, Roberts transferred the remaining balance of that account to an individual IRA with Edward D. Jones & Company; Pioneer was not a party to or contributor to the IRA contract. At Roberts's death, the IRA was worth \$597,347, and the parties stipulated that \$574,633.06 was traceable to employer contributions and related earnings. The estate conceded that \$22,713.94 attributable to Roberts's own contributions and related earnings was taxable, leaving only the employer-contribution-related amount in dispute.

PROCEDURAL HISTORY

The estate filed an Ohio estate tax return reporting no tax due and claimed that the entire rollover IRA was excluded under R.C. 5731.09(A). The Tax Commissioner assessed a \$28,378.49 estate tax deficiency. The probate court ruled for the estate, but the Second District Court of Appeals reversed and held that the disputed IRA value was includable in the gross estate. The Supreme Court of Ohio affirmed.

DISPOSITION

affirmed

CASES CITED

- Davis v. Willoughby, 173 Ohio St. 338, 182 N.E.2d 552 (1962)
- Clark Restaurant Co. v. Evatt, 146 Ohio St. 86, 64 N.E.2d 113 (1945)
- Sims Bros., Inc. v. Tracy, 83 Ohio St. 3d 162, 166, 699 N.E.2d 50, 54 (1998)
- Lakefront Lines, Inc. v. Tracy, 75 Ohio St. 3d 627, 629, 665 N.E.2d 662, 664 (1996)
- Cleveland v. Bd. of Tax Appeals, 153 Ohio St. 97, 99-100, 91 N.E.2d 480, 482 (1950)
- Natl. Tube Co. v. Glander, 157 Ohio St. 407, 105 N.E.2d 648 (1952)
- Ares, Inc. v. Limbach, 51 Ohio St. 3d 102, 104, 554 N.E.2d 1310, 1312 (1990)
- Vought Industries, Inc. v. Tracy, 72 Ohio St. 3d 261, 264-265, 648 N.E.2d 1364, 1366-1367 (1995)
- In re Estate of White, 25 Ohio St. 3d 355, 357-358, 496 N.E.2d 888, 889-890 (1986)
- State ex rel. Foster v. Evatt, 144 Ohio St. 65, 56 N.E.2d 265 (1944)

OPINION

COOK, J.

Cook, J. R.C. 5731.09(A) exempts from estate tax the value of an annuity (or similar payment to a surviving beneficiary) attributable to contributions by a decedent's former employer to an employee's trust or fund. This case asks whether the exemption applies even when the decedent has transferred funds from an employee retirement account to an individual retirement account ("IRA") to which the employer has not directly contributed.

For the reasons that follow, we find that it does not. I In February 1993, Robert Lawrence Roberts retired from his employment with Pioneer Rural Electric Cooperative, Inc. ("Pioneer").¹ During Roberts's employment, both Roberts and Pioneer had contributed to an employee retirement fund administered by the National Rural Electric Cooperative Association. When Roberts retired, his Pioneer retirement account contained \$346,440.22, a sum *312composed of Roberts's contributions (\$9,463.50), interest on Roberts's contributions (\$12,813.45), ordinary income (\$201,288.08), and capital gains (\$122,875.19).

Immediately upon his retirement, Roberts received a check for \$9,463.50, the amount of his own after-tax contributions to his employee retirement account. Shortly after he retired from Pioneer, Roberts requested that the remainder of his employee retirement fund — \$336,976.72—be transferred to an IRA he had previously opened with Edward D. Jones & Company. Of the amount rolled over to the IRA, \$12,813.45 represented the interest earned on Roberts's contributions to his Pioneer employee retirement fund.

By the time that Roberts died in November 1997, the value of his IRA had grown to \$597,347. In June 1998, Roxie L. Roberts, as administrator of the estate of Robert Lawrence Roberts, filed an Ohio estate tax return that reported no tax due.

The estate listed among Roberts's assets the value of the rollover IRA with Edward D. Jones & Company; the estate claimed, however, that the entire value of the IRA was excluded from the

value of the gross estate by virtue of R.C. 5731.09(A).

The Tax Commissioner filed exceptions to the estate's tax return in probate court, contending that the estate's interpretation of R.C. 5731.09(A) was incorrect. The commissioner also adjusted the estate's tax return and, after including the value of Roberts's IRA in calculating the value of the gross estate, found an estate tax deficiency of \$28,378.49.

The estate filed its own exceptions in the probate court challenging the commissioner's assessment of estate tax. The estate and the commissioner submitted the matter to the probate court on briefs and joint stipulations.

The estate conceded that \$22,713.94 — the amount representing earnings and appreciation traceable to Roberts's contributions to his Pioneer employee retirement account before the rollover to his IRA — was "fully taxable under any reading of R.C. 5731.09." Thus, the only issue before the probate court was whether the remaining value of the IRA — \$574,633.06—was a taxable portion of the gross estate under R.C.

5731.09. The parties stipulated that this amount of the IRA was traceable to "employer contributions originally made to the Pioneer Rural Electric Cooperative, Inc. retirement plan plus earnings and appreciation thereon." The probate court ruled in favor of the estate and held that the disputed value of the IRA should not be included when calculating the value of the gross estate.

The commissioner appealed the probate court's decision to the Second District Court of Appeals, which reversed. The court of appeals found R.C. 5731.09(A)'s language ambiguous, noting that it was "unable to determine whether the legislature intended to exclude from one's gross estate funds attributable to employer contributions only insofar as those funds remain in employee retirement funds maintained by the employer, or if it intended to exclude all funds traceable to employer contributions without regard to their location at the time of *313death." But because the language of R.C.

5731.09(A) did not "clearly support" the estate's claim for an exemption from estate tax, the court of appeals construed the statute most strongly against the exemption and in favor of taxation. The court of appeals therefore found that the disputed value of the IRA should be included in calculating the value of Roberts's gross estate.

The cause is now before this court pursuant to the allowance of a discretionary appeal. II The estate offers three propositions of law, all of which surround the proper interpretation of R.C. 5731.09(A). This statute provides: "Except as provided in division (B) of this section, the value of the gross estate includes the value of an annuity or other payment receivable by a beneficiary by reason of surviving the decedent under any form of contract or agreement under which an annuity or similar payment was payable to the decedent, or the decedent possessed the right to receive such annuity or payment, either alone or in conjunction with another, for the decedent's life or for

any period not ascertainable without reference to the decedent's death, or for any period which does not in fact end before the decedent's death. "However, the value of the gross estate includes only such part of the value of the annuity or other payment receivable under the contract or agreement as is proportionate to that part of the purchase price of the contract or agreement contributed by the decedent.

The value of the gross estate does not include the part of the value of the annuity or other payment as is proportionate to the part of the purchase price of the contract or agreement contributed by the employer or former employer of the decedent, whether to an employee's trust or fund forming part of a pension, annuity, retirement, bonus, or profit-sharing plan or otherwise, if the contributions were made by reason of the decedent's employment." (Emphasis added.)

The parties disagree on the proper interpretation of the second paragraph of R.C. 5731.09(A). The estate argues that the value of Pioneer's contributions to Roberts's employee retirement account remained exempt from estate tax even after Roberts transferred them to his rollover IRA.

In contrast, the commissioner argues that the full purchase price of the IRA was attributable to Roberts, leaving nothing to qualify for the exclusion described in R.C. 5731.09(A). In support of its argument, the estate first asserts that R.C. 5731.09(A) is a statute that imposes a tax and therefore requires strict construction against the state, with any doubt resolved in favor of the taxpayer.

See *Davis v. Willoughby* *314(1962), 173 Ohio St. 338, 19 O.O.2d 270, 182 N.E.2d 552, paragraph one of the syllabus; *Clark Restaurant Co. v. Evatt* (1945), 146 Ohio St. 86, 31 O.O. 576, 64 N.E.2d 113, paragraph three of the syllabus.

The estate observes that the statute uses the words "include" and "includes" rather than the words "except" and "exception," which prominently appear in other statutes defining tax exemptions. Because of this, the estate contends that R.C. 5731.09(A) actually defines what is part of the gross estate and subject to tax. When ascertaining the meaning of statutory language, we must give meaning to all portions of the statute.

See *Sims Bros., Inc. v. Tracy* (1998), 83 Ohio St.3d 162, 166, 699 N.E.2d 50, 54. In this case, we must look to both paragraphs of R.C. 5731.09(A) in order to determine whether the statutory language at issue imposes a tax or defines an exemption. If the provision does the latter, we must strictly apply the statute against the exemption. *Lakefront Lines, Inc. v. Tracy* (1996), 75 Ohio St.3d 627, 629, 665 N.E.2d 662, 664. " '[Taxation is the rule, and exemption is the exception.

Since the reduction depends on legislative grace, the statute must clearly express the exemption, *Cleveland v. Bd. of Tax Appeals* (1950), 153 Ohio St. 97, 99-100, 41 O.O. 176, 178, 91 N.E.2d 480, 482, paragraph one of the syllabus, and a taxpayer must show his entitlement to it, *Natl. Tube Co. v. Glander* (1952), 157 Ohio St. 407, 47 O.O. 313, 105 N.E.2d 648, paragraph two of the

syllabus.’ ” Id., quoting *Ares, Inc. v. Limbach* (1990), 51 Ohio St.3d 102, 104, 554 N.E.2d 1310, 1312; see, also, *Vought Industries, Inc. v. Tracy* (1995), 72 Ohio St.3d 261, 264, 648 N.E.2d 1364, 1366.

The first paragraph of R.C. 5731.09(A) declares that the value of the gross estate “includes the value of an annuity or other payment receivable by a beneficiary * * * under any form of contract or agreement under which an annuity or similar payment was payable to the decedent.” This paragraph thus provides a general rule that the value of any annuity (or similar payment), regardless of how it was funded or purchased, is included in the gross estate for tax purposes.

This paragraph is consistent with the overriding principle expressed in R.C. 5731.03, which generally provides that the gross estate for tax purposes “shall include the value of all property, to the extent of the interest therein of the decedent on the date of the decedent’s death.” (Emphasis added.) While the first paragraph of R.C. 5731.09(A) is a taxing provision describing the property included in valuing the gross estate, the second paragraph unmistakably excludes certain property from a calculation of the gross estate’s value.

The second paragraph of R.C. 5731.09(A) explains that the value of the gross estate does not include the part of the value of an annuity (or other similar payment) “as is proportionate to the part of the purchase price * * * contributed by the employer or former employer of the decedent * * * if the contributions were made by reason of the decedent’s employment.” The second paragraph of R.C. 5731.09(A).

R.C. 5731.09(A) thus exempts what the first paragraph would have otherwise included as part of the gross estate. See *In re Estate of White* (1986), 25 Ohio St.3d 355, 357, 25 OBR 407, 408, 496 N.E.2d 888, 889 (interpreting the first sentence of R.C. 5731.12 as a taxing provision and the second sentence as an exemption provision).

We therefore conclude that the second paragraph of R.C. 5731.09(A) is a tax-exemption provision. Accordingly, we must resolve any doubt as to the meaning of R.C. 5731.09(A)’s second paragraph in favor of taxation and against the applicability of the exemption. See *id.*, 25 Ohio St.3d at 357-358, 25 OBR at 408, 496 N.E.2d at 889-890. Regardless of how we characterize the second paragraph of R.C. 5731.09(A).

R.C. 5731.09(A), the estate argues that the disputed amount of Roberts’s rollover IRA remains exempt from taxation. The estate contends that nothing in R.C. 5731.09(A) requires that funds remain in the same employee “trust or fund” to which the employer originally contributed in order to retain their tax-exempt status. Rather, the estate argues that the source of the funds is the dispositive factor.

And because the disputed amount of Roberts’s IRA is directly traceable to the amount of Pioneer’s contributions to Roberts’s employee retirement account, the estate asserts that the funds retain

their exempt status under R.C. 5731.09(A) despite the fact that Roberts transferred them from the employer-administered retirement fund to the rollover IRA.

We disagree with the estate because the language of R.C. 5731.09(A) dictates a contrary result. The exclusion allowed by the second paragraph of R.C. 5731.09(A) applies only to the “part of the value of the annuity or other payment as is proportionate to the part of the purchase price of the contract or agreement contributed by the employer or former employer of the decedent * * * if the contributions were made by reason of the decedent’s employment.” (Emphasis added.)

The funds that the estate seeks to exempt do not fit within this description. The only “contract or agreement” at issue in this case is the IRA contract or agreement that Roberts entered into as an individual customer of Edward D. Jones & Company. Pioneer was not a party to Roberts’s IRA contract and contributed nothing to it by reason of Roberts’s employment.

The only “contract or agreement” to which Pioneer contributed funds within the meaning of R.C. 5731.09(A) was Roberts’s employee retirement account, which no longer existed at the time of Roberts’s death. While it is true that Roberts avoided paying federal income tax on funds that he withdrew from his employee retirement account by transferring them to a rollover IRA,² there is no statutory support for the estate’s premise that the funds retained the same status for purposes of Ohio estate taxation.

Because Roberts himself transferred the disputed funds to the *316rollover IRA, all contributions to the IRA’s “purchase price” were his alone, rendering the exemption in R.C. 5731.09(A) inapplicable to any part of the IRA’s value.

The estate contends that this reading of R.C. 5731.09(A)’s second paragraph is “unduly restrictive.” It urges us to interpret the exemption broadly to apply to funds that are traceable to employer contributions, even if the decedent has transferred the funds to a rollover IRA as Roberts did in this case.

In support of its interpretation, the estate first argues that nothing in the language of R.C. 5731.09(A)’s second paragraph clearly limits the exemption to funds that remain in the same trust or fund to which the employer originally contributed. But this argument turns the operative mode of analysis upside down.

The second paragraph of R.C. 5731.09(A) is an exemption provision that must be strictly construed against the taxpayer. See *In re Estate of White*, 25 Ohio St.3d at 357, 25 OBR at 408, 496 N.E.2d at 889. Far from demonstrating an entitlement to the exemption described in R.C. 5731.09(A), the estate has, at best, established an ambiguity as to whether the phrase “contributed by the employer or former employer” as used in the statute also refers to funds traceable to contributions from the employer.

We must construe this ambiguity against the estate and resolve any doubt against the applicability of the exemption. The estate also attempts to support its interpretation by emphasizing the phrase “or otherwise” in R.C. 5731.09(A).

The second paragraph of R.C. 5731.09(A) exempts from estate taxation “the value of the annuity or other payment as is proportionate to the part of the purchase price of the contract or agreement contributed by the employer or former employer of the decedent, whether to an employee’s trust or fund forming part of a pension, annuity, retirement, bonus, or profit-sharing plan or otherwise.” (Emphasis added.)

The estate argues that the phrase “or otherwise” makes the exemption applicable to funds that are not necessarily contained in an “employee’s trust or fund” at the time of a decedent’s death. Thus, the estate contends that the funds in Roberts’s rollover IRA (to the extent traceable to Pioneer contributions to his employee retirement account) are excluded when calculating the value of the gross estate.

This argument is also without merit because it ignores other vital portions of R.C. 5731.09(A). Admittedly, the phrase “or otherwise” in R.C. 5731.09(A) implies that the tax exclusion could apply to funds residing in an account other than “an employee’s trust¹ or fund.” But this possibility does not lead us to conclude that any part of Roberts’s rollover IRA is excluded from the value of the gross estate.

The first paragraph of R.C. 5731.09(A) includes in the gross estate “the value of an annuity or other payment receivable by a beneficiary by reason of surviving the decedent under any form of contract or agreement.” (Emphasis added.)

The statute ³¹⁷repeats the phrase “contract or agreement” in the second paragraph of R.C. 5731.09(A), which excludes from the gross estate the value of an annuity (or similar payment) that is “proportionate to the part of the purchase price of the contract or agreement contributed by the employer or former employer of the decedent * * * if the contributions were made by reason of the decedent’s employment.” (Emphasis added.)

The phrase “or otherwise” does not change the fact that any payment receivable by a beneficiary of Roberts results from a contract or agreement Roberts himself had with Edward D. Jones & Company and not from any contract or agreement involving Pioneer. Absent a “contract or agreement” to which the decedent’s former employer directly contributed, the exclusion in R.C.

5731.09(A) is inapplicable. “ ‘There is no authority under any rule of statutory construction to add to, enlarge, supply, expand, extend or improve the provisions of the statute to meet a situation not provided for.’ ” Vought Industries, 72 Ohio St.3d at 265, 648 N.E.2d at 1367, quoting State ex rel. Foster v. Evatt (1944), 144 Ohio St. 65, 29 O.O. 4, 56 N.E.2d 265, paragraph eight of the syllabus.

For the foregoing reasons, we uphold the court of appeals' determination that the disputed portion of Roberts's IRA should be included when calculating the value of Roberts's gross estate. Under R.C. 5731.09(A), the value of the gross estate includes the value of a rollover IRA that the decedent purchased and to which the decedent's employer or former employer did not directly contribute by reason of the decedent's employment.

The judgment of the court of appeals is affirmed. Judgment affirmed. Moyer, C.J., Douglas and F.E. Sweeney, JJ., concur. Resnick, Pfeifer and Lundberg Stratton, JJ., dissent.. The parties' joint stipulations in the probate court refer to Roberts's "quasi-retirement" from Pioneer without elaborating on the distinction between retirement and quasi-retirement.

As no party contends that any distinction between the two terms is relevant to this appeal, we refer simply to Roberts's retirement from Pioneer.. See, generally, Sections 402 and 408, Title 26, U.S.Code.