1 T.C. 14 (1942)

A donee is personally liable for gift tax to the extent of the value of the gift, regardless of the donor's solvency, and the IRS has one year after the statute of limitations expires for the donor to assess the tax against the donee.

Summary

Evelyn Moore received gifts from her husband, Edward Moore, in 1935. Edward filed a gift tax return, but the Commissioner later determined a deficiency based on increased valuations of prior gifts. The IRS sought to collect the deficiency from Evelyn as the donee, even though the statute of limitations had expired for Edward. The Tax Court held Evelyn liable, stating that Section 510 of the Revenue Act of 1932 makes a donee personally liable for gift tax to the extent of the gift's value, irrespective of the donor's solvency. The court also found that the IRS had one year after the expiration of the statute of limitations for the donor to assess the tax against the donee.

Facts

- Edward S. Moore gifted securities worth $415,500 to his wife, Evelyn N. Moore, in 1935.
- Edward filed a gift tax return on March 11, 1936, and paid the tax reported.
- The Commissioner never determined a deficiency against Edward, who remained financially solvent.
- The Commissioner mailed a notice of liability to Evelyn on February 20, 1940, seeking to collect a deficiency based on increased valuations of prior gifts made to trusts for his children in 1924 and 1925 where he retained certain powers until 1934.
- The statutory period for determining a deficiency against Edward expired on March 11, 1939.

Procedural History

The Commissioner determined that Evelyn was liable as a transferee for Edward's gift taxes. Evelyn appealed to the Tax Court, arguing that her liability was conterminous with Edward's and expired when the statute of limitations ran against him. The Tax Court ruled in favor of the Commissioner.

Issue(s)

1. Whether a donee is liable for gift tax when the donor is solvent and the statute of limitations has expired for assessing a deficiency against the donor.
2. Whether the Commissioner can assess a gift tax deficiency against a donee based on an increased valuation of prior gifts made by the donor to other parties.

Holding

1. Yes, because Section 510 of the Revenue Act of 1932 makes a donee personally liable for gift tax to the extent of the value of the gift, regardless of the donor's solvency or the statute of limitations for the donor, and Section 526(b) allows assessment against the transferee within one year after the expiration of the period of limitation for assessment against the donor.
2. Yes, because the gift tax rates are progressive, and increasing the value of prior gifts subjects the 1935 gifts to higher tax rates.

Court's Reasoning

The court based its decision on the explicit language of Section 510 of the Revenue Act of 1932, which states, "If the tax is not paid when due, the donee of any gift shall be personally liable for such tax to the extent of the value of such gift." The court emphasized that this provision does not require the Commissioner to first pursue the donor or that the gift render the donor insolvent. The court also cited Section 526(f), which defines "transferee" to include "donee," making the statutory process for collecting from transferees applicable to donees. The court noted that Section 526(b) provides for a one-year extension after the expiration of the period of limitation for assessment against the donor to assess the tax against the transferee. The court rejected the petitioner's argument that her liability was based on equitable principles, clarifying that the Commissioner was relying on an express statutory provision. The court also cited precedent establishing that gifts in trust with retained powers are not complete until those powers are relinquished, justifying the increased valuation of prior gifts.

Practical Implications

Moore v. Commissioner clarifies that the IRS can pursue donees for unpaid gift taxes even if the donor is solvent and the statute of limitations has expired for the donor. This case highlights the importance of understanding potential donee liability when receiving significant gifts. It also underscores the IRS's ability to revalue prior gifts to increase the tax rate on subsequent gifts, impacting both donors and donees. Later cases have cited *Moore* to support the principle of donee liability and the IRS's extended period for assessing taxes against transferees. Tax advisors must counsel clients on the potential for donee liability and the importance of accurate gift valuations.