1 T.C. 598 (1943)

A gift in trust does not qualify for the gift tax exclusion under Section 504(b) of the Revenue Act of 1932, as amended by Section 505(a) of the Revenue Act of 1938.

Summary

Leon Levy transferred stock to his wife, Blanche, purportedly for the benefit of Lynne Frances, a minor, intending it as a gift. Levy sought a $4,000 gift tax exclusion under the Revenue Act, arguing it was a direct gift. The Commissioner of Internal Revenue denied the exclusion, asserting the transfer constituted a gift in trust. The Tax Court upheld the Commissioner's determination, finding that Levy's actions and the agreement's language demonstrated an intent to create a trust, thus disqualifying the gift from the exclusion.

Facts

Leon Levy owned shares of Columbia Broadcasting System, Inc., stock. On November 20, 1939, Levy and his wife, Blanche, executed a gift agreement transferring 165 shares to Blanche "for the said Lynne Frances, minor." The agreement stated Blanche accepted the gift "with the usual incidents of a Trusteeship" and would transfer the stock to Lynne upon her reaching majority. Levy delivered the stock to Blanche, stating it was a gift to hold for Lynne. Levy intended the gift to fall within the $4,000 gift tax exclusion.

Procedural History

Levy filed a gift tax return claiming a $4,000 exclusion. The Commissioner disallowed the exclusion, determining the gift was either to a trust or a future interest. Levy petitioned the Tax Court, contesting the deficiency assessment.

Issue(s)

Whether the transfer of stock from Leon Levy to Blanche Levy for Lynne Frances constituted a gift in trust, thereby precluding the $4,000 gift tax exclusion under Section 504(b) of the Revenue Act of 1932, as amended.

Holding

No, because the evidence demonstrated that Levy intended to create a trust, disqualifying the gift from the gift tax exclusion.

Court's Reasoning

The Tax Court applied the definition of a trust as "a fiduciary relationship with respect to property, subjecting the person by whom the property is held to equitable duties to deal with the property for the benefit of another person, which arises as a result of a manifestation of an intention to create it." The court noted that the gift instrument indicated a fiduciary relationship with Blanche holding the stock for Lynne's benefit, with a duty to transfer it upon her majority. The court emphasized Levy's prior creation of an unambiguous trust for his son, his statement that he intended to make the gift to Lynne in the same manner, and Blanche's understanding of her role as a trustee, as evidenced by her signature and testimony. Although Levy intended the gift to be within the gift tax exclusion limit, this intention was outweighed by the evidence indicating an intent to create a trust. Therefore, the court concluded a trust was created, disqualifying the gift from the exclusion.

Practical Implications

This case illustrates the importance of clearly documenting the intent behind a gift, especially when seeking a gift tax exclusion. The court's decision highlights that the substance of a transaction, as evidenced by the agreement's language, the donor's actions, and the recipient's understanding, will determine whether a trust is created, regardless of the donor's stated desire to qualify for a tax exclusion. Attorneys must carefully advise clients on the implications of trust-like language in gift agreements. Subsequent cases may cite this ruling when determining whether a gift was outright or in trust, affecting tax liability.