

## ***1 T.C. 1087 (1943)***

A beneficiary's relinquishment of their right to receive income from a trust constitutes a taxable gift to the grantor when the beneficiary's interest is a vested equitable interest, and the grantor receives a direct benefit from the relinquishment.

### **Summary**

Camelia Cerf consented to amendments to trusts established by her husband, Louis Cerf, which initially provided her with income for life. These amendments transferred the income stream back to Louis and gave him the power to revoke the trusts. The Tax Court held that Camelia's consent constituted a taxable gift to Louis, valued based on the income stream she relinquished. The court further reasoned that the valuation of the gift properly included the present worth of future renewal commissions that would increase the trust's corpus, despite Louis also being liable for income tax on those commissions. The dissent argued that the commissions had not yet been received, and therefore could not be part of the gift valuation.

### **Facts**

Louis Cerf, a former general agent for Mutual Benefit Life Insurance Co., created four trusts in 1928, each benefiting Camelia and one of their four children. The trusts were funded with renewal commissions from his insurance contracts. Camelia was entitled to the trust income for life and held a limited power of appointment. The trusts could only be amended or revoked with Camelia's consent. In 1932, Camelia consented to amendments that gave Louis the right to the trust income for life and the power to amend or revoke the trusts at his pleasure. From 1932 to 1935, Louis received all the trust income. In 1935, Louis made the trusts irrevocable, relinquishing his rights to the corpus and income.

### **Procedural History**

The Commissioner of Internal Revenue determined a gift tax deficiency against Camelia Cerf for 1932, asserting she made gifts to her husband by consenting to the trust amendments. Camelia challenged the deficiency, arguing she made no gift and that the valuation was incorrect. The Tax Court upheld the Commissioner's determination, leading to this case brief.

### **Issue(s)**

1. Whether Camelia's consent to the trust amendments in 1932, which transferred her right to the trust income for life to her husband, constituted a taxable gift to her husband?
2. Whether, in valuing the gift, the Commissioner properly included the present worth of future renewal commissions that would accrue to the trusts?

## Holding

1. Yes, because Camelia relinquished a vested equitable interest in the trusts by consenting to the amendments, and her husband directly benefited from the transfer of her income rights.
2. Yes, because the valuation of Camelia's life interest in the trust properly reflected the future earnings of the trusts, including income derived from the renewal commissions, as intended by the trust agreements.

## Court's Reasoning

The court reasoned that Camelia possessed a vested equitable interest in the trusts, specifically the right to receive income for life. By consenting to the amendments, she transferred this right to her husband, thus completing a gift. The court rejected Camelia's argument that she merely refused to accept a gift, stating that her initial acceptance was evidenced by her acquiescence in the trust agreements and her role as a trustee. The court cited *Blair v. Commissioner*, [300 U.S. 5](#), noting that a beneficiary is entitled to enforce the trust. The court distinguished this case from situations involving a mere power of appointment, emphasizing that Camelia held a present equitable interest.

Regarding valuation, the court found no error in including the future renewal commissions. The trust agreements explicitly assigned these commissions to the trusts, and their value directly impacted the potential income stream. The court emphasized that "the value of that right depends upon the future earnings of the trusts for the period of petitioner's life, which in turn depends upon the amount of the renewal commissions that will be received by the trusts as corpus." The court found the Commissioner's valuation method to be reasonable and absent evidence to the contrary, accepted it as prima facie correct.

## Practical Implications

This case clarifies that a beneficiary's relinquishment of a vested interest in a trust's income stream can constitute a taxable gift, particularly when the grantor directly benefits. Attorneys should advise clients that amending trust agreements to redirect income streams may trigger gift tax consequences. Further, this case affirms the IRS's authority to consider future income streams, such as renewal commissions, when valuing life interests in trusts for gift tax purposes. Later cases might distinguish this ruling based on the degree of control the beneficiary exercises or the specific terms of the trust agreement. The dissent highlights the potential for double taxation as the grantor is also responsible for income tax on the commissions.