2 T.C. 21 (1943)

When a grantor of an inter vivos trust retains a possibility of reverter, the entire value of the trust corpus at the time of the grantor's death is includable in the grantor's gross estate for estate tax purposes, regardless of the remoteness of the reversionary interest.

Summary

The Estate of Lester Field challenged the Commissioner of Internal Revenue's determination that the entire value of an inter vivos trust, created by Field in 1922, should be included in his gross estate for estate tax purposes. Field retained a possibility of reverter in the trust until his death in 1937. The Tax Court held that the entire trust corpus was includable in Field's estate, relying on Helvering v. Hallock and Smith v. Shaughnessy, emphasizing that the estate tax is an independent tax measured by its own standards, unaffected by gift tax considerations.

Facts

On June 8, 1922, Lester Field created an inter vivos trust, transferring assets to Bankers Trust Co. as trustee. The trust terms included: (A) The trust was to last for the joint lives of two nieces, with income to Field for life. (B) Upon Field's death, $150,000 was to be held in trust for his widow, with the balance for his children. (C) Field retained the right to reduce or cancel the gifts by will. (D) If the trust terminated before Field's death, the corpus would revert to him. At his death on November 16, 1937, Field was survived by his widow, two nieces, and other relatives. The trust assets were valued at $307,452.82 at the time of his death. It was stipulated that the transfer in trust was not made in contemplation of death, and Field did not relinquish the power to alter, amend, or revoke the transfer.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in estate tax by including the entire value of the trust corpus in Field's estate. The Estate petitioned the Tax Court, arguing that only the value of the possibility of reverter should be included. The Tax Court ruled in favor of the Commissioner, holding that the entire trust corpus was includable.

Issue(s)

Whether the entire value of the corpus of an inter vivos trust, in which the grantor retained a possibility of reverter, is includable in the grantor's gross estate for estate tax purposes under Section 302(c) of the Revenue Act of 1926, as amended.

Holding

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Yes, because the grantor retained a possibility of reverter until his death, the entire value of the trust corpus is includable in his gross estate for estate tax purposes, as established by *Helvering v. Hallock* and *Smith v. Shaughnessy*.

Court's Reasoning

The Tax Court relied heavily on *Smith v. Shaughnessy*, a gift tax case, to support its holding. The court emphasized that the Supreme Court in *Shaughnessy* articulated that the gift and estate tax laws are closely related, and the gift tax serves to supplement the estate tax. The court quoted *Shaughnessy*: "Under the statute the gift tax amounts in some instances to a security, a form of down-payment on the estate tax which secures the eventual payment of the latter; it is in no sense double taxation as the taxpayer suggests." The Tax Court reasoned that the estate tax stands on its own and is measured by its own standards, unaffected by those of the gift tax. The court stated that because there was no gift tax paid on the transfer in trust (as there was no gift tax at the time of the transfer), the estate tax is not reduced. The court concluded that the entire value of the remainder was includable in the decedent's gross estate, affirming the Commissioner's determination.

Practical Implications

Field v. Commissioner reinforces the principle that retaining a possibility of reverter, however remote, can lead to the inclusion of the entire trust corpus in the grantor's estate for tax purposes. This case underscores the importance of careful estate planning to avoid unintended tax consequences. It clarifies that the existence of a reversionary interest is the key factor, not its actuarial value or likelihood of occurring. Attorneys should advise clients that even a seemingly insignificant reversionary interest can trigger substantial estate tax liabilities. Later cases have cited Field to emphasize the broad scope of estate tax inclusion when reversionary interests are retained.

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