2 T.C. 174 (1943)

The reciprocal trust doctrine will not apply, and the corpus of a trust will not be included in the taxable estate of a life income beneficiary if the trusts were not created in consideration of each other and were separate, independent transactions.

Summary

This case addresses whether two trusts, created by a husband and wife, were reciprocal and therefore includable in each other's taxable estates. The Tax Court held that the trusts were not created in consideration of each other, despite being similar in structure and executed around the same time. The court emphasized the lack of agreement or tacit understanding between the grantors, finding that the trusts were independent transactions. Consequently, the Commissioner erred in including the corpus of each trust in the taxable estate of the decedent who was the life income beneficiary.

Facts

Samuel S. Lindsay and his wife, Helen P. Lindsay, both created trusts in December 1934. Samuel created a trust with income to Helen for life, then to their sons and their issue. Helen created a similar trust with income to Samuel for life, then to their sons and their issue. Alexander P. Lindsay, their son, was the attorney who drafted both trust agreements. The Commissioner included the value of the trust created by Helen in Samuel's estate and vice versa, arguing they were reciprocal trusts.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the estate taxes of both Samuel and Helen Lindsay. The executor of both estates, Alexander P. Lindsay, petitioned the Tax Court for redetermination, arguing that the trusts should not be included in the respective gross estates. The Tax Court consolidated the cases.

Issue(s)

Whether the trusts created by Samuel and Helen Lindsay were reciprocal trusts, such that the corpus of each trust should be included in the taxable estate of the decedent who was the life income beneficiary under section 302 of the Revenue Act of 1926, as amended.

Holding

No, because there was no agreement or tacit understanding between the grantors that the trusts should be created, and the trusts were proven to be independent transactions.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court emphasized that the critical factor was whether the trusts were created in consideration of each other. Despite the trusts being similar in amounts and provisions, the court found no evidence of an agreement or understanding between Samuel and Helen to create reciprocal trusts. The court noted that the idea of making Helen the life income beneficiary of Samuel's trust was initially suggested by their son, Alexander, and that Helen created her trust independently, without Samuel's knowledge. Alexander's testimony indicated "that there was no concert of action or prearranged agreement between the parties." The court distinguished this case from others where reciprocal trusts were found, highlighting the petitioners' successful demonstration of the transfers' actual independence. The court explicitly stated, "We are satisfied, on the record, that there was neither agreement nor tacit understanding between the two grantors that the trusts should be created."

Practical Implications

This case clarifies the application of the reciprocal trust doctrine, emphasizing that similarity in trust terms and timing of execution are not, by themselves, sufficient to establish reciprocity. To successfully argue that trusts are reciprocal, the IRS must demonstrate an actual agreement or understanding between the grantors. The Lindsay case provides a framework for analyzing reciprocal trust situations, highlighting the importance of demonstrating the independence of each transfer. It shows that family members can create similar trusts benefiting each other without triggering the reciprocal trust doctrine, provided there is no prearranged agreement. This decision informs estate planning strategies and emphasizes the need to document the independent nature of trust creation to avoid estate tax inclusion.

© 2025 SCOTUSreports.com. All rights reserved.