Lindsay v. Commissioner, 2 T.C. 176 (1943)

The reciprocal trust doctrine applies only when trusts are interrelated, such that each was created in consideration for the other; the mere fact that trusts are similar in nature, created around the same time, and involve family members does not automatically invoke the doctrine.

Summary

The Tax Court addressed whether trusts established by a husband and wife were reciprocal, requiring the inclusion of the trust corpus in each of their respective gross estates for estate tax purposes. The court held that the trusts were not reciprocal because there was no evidence of an agreement or understanding that each trust was created in consideration of the other. The court emphasized the importance of demonstrating actual interdependence between the trusts, rather than relying on superficial similarities like timing and beneficiaries.

Facts

A husband and wife each created trusts around the same time. The husband's trust named his wife as the life income beneficiary, and the wife's trust named her husband as the life income beneficiary. The trusts were of substantially equal value and contained similar provisions. The son of the grantors, an attorney, drafted both trust agreements and suggested the life income provisions. The wife created her trust independently, without the husband's knowledge, after consulting with their son. The IRS argued that the trusts were reciprocal and should be included in the gross estate of each spouse.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the estate taxes of Helen P. Lindsay and Samuel S. Lindsay, asserting that the value of the corpus of trusts they created should be included in their respective gross estates. The taxpayers, representatives of the estates, petitioned the Tax Court for a redetermination of the deficiencies. The Tax Court consolidated the cases for hearing.

Issue(s)

Whether the trusts created by the husband and wife were reciprocal trusts, such that the corpus of each trust should be included in the gross estate of the life income beneficiary for estate tax purposes?

Holding

No, because the evidence showed that the trusts were created independently, without any agreement or understanding between the grantors that each trust was made in consideration of the other.

Court’s Reasoning

The court found that the IRS failed to prove the existence of any agreement or tacit understanding between the husband and wife that the trusts would be created reciprocally. The court emphasized the son’s testimony, who as the attorney drafting the trusts, indicated that the wife independently decided to create her trust without the husband’s knowledge. The court distinguished the case from others where the reciprocal nature of the trusts was more evident. The court stated, “But the facts that the trusts were executed about the same time, were in substantially equal amounts, and had similar provisions are not conclusive that the trusts were interdependent and were executed in consideration of each other.” The court also rejected the IRS’s argument to apply the theory of *Helvering v. Clifford*, noting that the grantors retained no rights in the trusts, making the Clifford doctrine inapplicable.

Practical Implications

This case clarifies that the reciprocal trust doctrine requires more than just similarity in trust terms and timing. It requires demonstrating an actual interrelation or agreement between the settlors that one trust was created in consideration for the other. When advising clients creating trusts with similar terms, especially between family members, attorneys should meticulously document the independent decision-making process to avoid potential application of the reciprocal trust doctrine. Later cases have cited *Lindsay* for the proposition that mere similarity in trust terms is insufficient to establish reciprocity; there must be a clear showing of an agreement or understanding.

