2 T.C. 876 (1943)

A transfer of property made in consideration of marriage is subject to gift tax to the extent the value of the property transferred exceeds the value of the consideration received, and a promise of marriage is not considered "adequate and full consideration in money or money's worth" under Section 503 of the Revenue Act of 1932.

Summary

William Wemyss transferred stock to his prospective wife, Ellen Stokes More, before their marriage, pursuant to a prenuptial agreement intended to compensate her for the loss of income from trusts established by her deceased first husband, which she would forfeit upon remarriage. The Commissioner of Internal Revenue determined that the transfer was subject to gift tax. The Tax Court upheld the Commissioner's determination, holding that the transfer was not supported by adequate consideration in money or money's worth, as required to avoid gift tax under Section 503 of the Revenue Act of 1932. The court reasoned that a promise of marriage is not a monetary consideration and therefore the entire value of the transferred stock was taxable as a gift.

Facts

William Wemyss proposed marriage to Ellen Stokes More, a widow who received income from two trusts created by her deceased husband, E.L. More. The trusts provided that the income would be paid to Ellen until her remarriage, to be used for the maintenance and support of her and her son. Ellen informed William that she would not marry him and lose her trust income unless he compensated her for the loss. Prior to the marriage, William transferred 13,139 shares of General Shoe Corporation stock to Ellen, valued at $149,456.13, pursuant to a written agreement stipulating that the transfer was to compensate Ellen for the loss of income upon her remarriage and to provide for her maintenance. Ellen and William married shortly thereafter, and Ellen subsequently lost her income from the trusts.

Procedural History

The Commissioner of Internal Revenue determined that the transfer of stock constituted a gift and assessed a deficiency in gift tax against William Wemyss for the years 1939 and 1940. Wemyss appealed to the United States Tax Court, contesting the Commissioner's determination.

Issue(s)

Whether the transfer of stock from William Wemyss to Ellen Stokes More, his prospective wife, pursuant to a prenuptial agreement compensating her for the loss of trust income upon remarriage, constituted a taxable gift under Section 503 of the Revenue Act of 1932.

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Holding

No, because the transfer was not made for an "adequate and full consideration in money or money's worth" within the meaning of Section 503 of the Revenue Act of 1932. The promise of marriage, while valuable, is not considered a monetary consideration, and the loss of trust income does not constitute consideration received by the donor.

Court's Reasoning

The Tax Court reasoned that Section 503 supplements Section 501 of the Revenue Act of 1932, intending to tax not only transfers that are gifts at common law, but also transfers for less than adequate monetary consideration. The court relied on Treasury Regulations that explicitly state that "a consideration not reducible to a money value, as love and affection, promise of marriage, etc., is to be wholly disregarded, and the entire value of the property transferred constitutes the amount of the gift." The court stated, "While it, as pointed out above, is a valuable consideration, it is not measurable in 'money or money's worth'" quoting Prewit v. Wilson, supra.. The court also rejected the argument that the wife's loss of trust income should reduce the taxable gift amount because the husband did not receive the income or acquire any right to it. The Court also addressed the argument that this ruling was unconstitutional, stating that classifying transfers of property to a spouse as taxable gifts is a reasonable measure to prevent the avoidance of estate taxes.

Practical Implications

The *Wemyss* decision clarifies that transfers made in consideration of marriage are generally subject to gift tax, as promises of marriage are not considered adequate monetary consideration. This case highlights the importance of carefully structuring prenuptial agreements to avoid unintended gift tax consequences. Subsequent cases and IRS rulings have further refined the application of gift tax laws to marital agreements, but the core principle remains: to avoid gift tax, transfers must be supported by full and adequate consideration in money or money's worth. Later cases have applied this ruling to scrutinize the nature of consideration provided in marital agreements, focusing on whether the transferred property is commensurate with the relinquished rights or benefits.

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