2 T.C. 1052 (1943)

The corpus of a trust is not includable in a decedent's gross estate under Section 811(c) or 811(d)(2) of the Internal Revenue Code when the trustee has absolute discretion to transfer the trust fund to the settlor, even if the settlor receives income from the trust.

Summary

Hugh Beugler created two trusts before 1931, conveying most of his property. The trusts provided income to his former wives and himself, with remainders to his children. The trustee had absolute discretion to transfer any part of the trust fund to Beugler. The Commissioner argued the trust corpora should be included in Beugler's gross estate. The Tax Court held that because the trustee's discretion was absolute and not controlled by the grantor, the trusts were not includable in Beugler's gross estate under Section 811(c) or 811(d)(2) of the Internal Revenue Code. The court emphasized that the possibility of the trust property returning to the settlor existed because of the trustee's discretion, not due to any power reserved by the decedent.

Facts

Hugh Beugler established two inter vivos trusts. The first, created in 1927, provided $150 per month to his then-wife, Bertha, with the balance of the income to Beugler. The second trust, created in 1930, provided $2,500 per year to Lois Dale Beugler (another wife), with the balance of the income to Beugler. Both trust indentures granted the trustee (Irving Trust Co.) absolute discretion to transfer any part of the principal to Beugler, provided sufficient funds remained to cover the payments to Bertha and Lois. At the time of its establishment, the principal of the first trust constituted substantially all of Beugler's fortune.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Beugler's estate tax, arguing the trust corpora should be included in his gross estate. The Irving Trust Co. was also determined to be liable as a transferee of property. The cases were consolidated in the Tax Court, which ruled in favor of the petitioners (the estate and the trustee), finding no basis to include the trust corpora in the gross estate.

Issue(s)

1. Whether the remainder interests under the two trusts are includable in the gross estate of the decedent settlor as transfers to take effect in possession at or after death under Section 811(c) of the Internal Revenue Code?
2. Whether the remainder interests under the two trusts are includable in the gross estate of the decedent settlor under Section 811(d)(2) of the Internal

© 2025 SCOTUSreports.com. All rights reserved.

Revenue Code?

Holding

1. No, because the possibility that the trust property would revert to the settlor existed due to the trustee's absolute discretion, not due to any power retained by the settlor.
2. No, because the decedent settlor had no power, either alone or in conjunction with any person, to alter, amend, or revoke the trusts.

Court's Reasoning

The court rejected the Commissioner's argument that the transfers were intended to take effect at or after death under the doctrine of *Helvering v. Hallock*. The court emphasized that the trustee's discretion to distribute the corpus to the settlor was absolute and not controlled by the grantor. The court distinguished this situation from cases where the grantor retained a power to alter, amend, or revoke the trust. Since the trusts were created before the Joint Resolution of March 3, 1931, the reservation of a life interest by the settlor in the income of the trusts was not sufficient to bring the principal into the gross estate. The court stated, "This possibility existed, however, not by reason of any power reserved to the decedent grantor, but because of an absolute and unlimited discretionary power lodged in the trustee, the exercise of which could in no way be controlled by the grantor."

Practical Implications

This case clarifies that a trustee's discretionary power to distribute trust assets to the settlor does not automatically cause the trust assets to be included in the settlor's gross estate for estate tax purposes. The key factor is whether the settlor retained any control over the trustee's discretion. If the trustee's discretion is truly absolute and independent, the trust assets are less likely to be included in the settlor's estate. This case highlights the importance of carefully drafting trust instruments to ensure that the grantor does not retain powers that could trigger estate tax inclusion. Post-1931 trusts reserving a life interest are now generally included in the gross estate due to subsequent legislative changes, but the principle of independent trustee discretion remains relevant in other contexts.

© 2025 SCOTUSreports.com. All rights reserved.