3 T.C. 525 (1944)

An option agreement to purchase stock that becomes effective only upon the death of the owner does not limit the fair market value of the stock for estate tax purposes.

Summary

The Estate of James H. Matthews disputed the Commissioner's valuation of company stock subject to an option agreement, life insurance proceeds assigned to a creditor, and assets in a trust created before March 3, 1931. The Tax Court held that the stock should be valued at its fair market value, not the option price, because the agreement was only effective upon death. The court also ruled that insurance proceeds paid to a creditor were includible in the gross estate. Finally, the court excluded the trust assets because the trust was created before the date that made such trusts includible in a gross estate.

Facts

James Matthews, president and a stockholder of Jas. H. Matthews & Co., entered into a reciprocal agreement with another officer, William Jenkins, granting the survivor an option to purchase the other's stock upon death at a stipulated price. Matthews also created two insurance trusts, later assigning some policies to a bank as collateral for a loan. Prior to March 3, 1931, Matthews established a trust retaining income for life after his wife's death, along with a contingent right to dispose of half the corpus.

Procedural History

The Estate filed an estate tax return valuing the Jas. H. Matthews & Co. stock at the option price. The Commissioner determined a higher fair market value and included insurance proceeds paid to the bank in the gross estate. The Commissioner also sought to include the assets of a pre-1931 trust in the gross estate. The Estate petitioned the Tax Court contesting these determinations.

Issue(s)

1. Whether corporate shares subject to a purchase option agreement are valued at fair market value or the option price for estate tax purposes.
2. Whether life insurance proceeds paid to a creditor to whom the policies were assigned as collateral are includible in the gross estate.
3. Whether the corpus of a trust created before March 3, 1931, where the decedent retained a life income interest, is includible in the gross estate.

Holding

1. Yes, because the option agreement was testamentary in character and did not restrict the decedent from disposing of the stock during his lifetime at fair

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market value.
2. Yes, because the insurance proceeds paid to the creditor bank were considered

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