3 T.C. 670 (1944)

A trustee who receives property as a gift is liable as a transferee for the donor's unpaid gift tax, and a donee of a future interest in property is liable for the gift tax to the extent of the present value of that future interest.

Summary

William Bodine made gifts in trust, with Fidelity-Philadelphia Trust Co. as trustee, and the Commissioner assessed a deficiency in gift tax. The Commissioner sought to hold the trustee liable as a transferee and Samuel Bodine, a beneficiary with a future interest, also liable as a donee-transferee. The Tax Court held the trustee liable based on its role and the donee liable to the extent of the actuarially determined value of his future interest. The court found that notices of deficiency to the trustee and donee were timely, even if the donor was not notified and was able to pay.

Facts

William W. Bodine established four irrevocable trusts in 1934, with Fidelity-Philadelphia Trust Co. as trustee, for the benefit of his children, including Samuel T. Bodine. The trusts were funded with cash and securities. The trust for Samuel directed the trustee to use income to pay premiums on life insurance policies on Samuel's life. Excess income could be accumulated or used for Samuel's education during his minority. Upon reaching certain ages (30, 35, and 40), Samuel was to receive portions of the trust corpus. Bodine made additional transfers to the trusts in subsequent years. In 1938, he transferred $5,733.01 to Samuel's trust. The trust instruments contained clauses against anticipation of distributions and alienation of interests.

Procedural History

Bodine filed gift tax returns for 1934-1937, claiming exclusions. He filed a return for 1938 but the Commissioner disallowed the exclusions, determining a deficiency. The Commissioner sent notices of deficiency to Fidelity-Philadelphia Trust Co. as trustee and to Samuel T. Bodine as donee-transferee, but not to William Bodine. The Tax Court consolidated the cases.

Issue(s)

1. Whether Fidelity-Philadelphia Trust Co. is liable as a transferee for the unpaid gift tax of William W. Bodine?

2. Whether Samuel T. Bodine, as the donee of a future interest, is liable as a transferee for the unpaid gift tax?

3. Whether the notices of deficiency were timely, given that the donor was not

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notified and the statutory period for assessment against the donor had expired?

Holding

1. Yes, because a trustee who receives property as a gift is liable as a transferee for the donor's unpaid gift tax under Section 510 of the Revenue Act of 1932.

2. Yes, because a donee of a future interest is liable for the gift tax to the extent of the value of the gift received.

3. Yes, because notices to the trustee and donee were mailed within one year from the expiration of the period of limitations for assessment against the donor, as permitted by statute.

Court's Reasoning

The court relied on previous cases (*Fletcher Trust Co.* and *Fidelity Trust Co. v. Commissioner*) to establish that a trustee can be held liable as a transferee for unpaid gift taxes. The court reasoned that Section 510 of the Revenue Act of 1932 makes a donee personally liable for the gift tax to the extent of the gift received, and Section 526(a)(1) allows enforcement of this liability. Regarding Samuel Bodine, the court acknowledged the difficulty in valuing a future interest but stated that "value is a question of fact." The court accepted the stipulated actuarially computed value of $2,993.87 as evidence of the value of the future interest and held Samuel liable to that extent. The court found the notices of deficiency timely, citing statutory provisions that allow for notices to transferees within a year after the limitations period expires for the donor. Judges Arundell and Mellott dissented, arguing that Samuel Bodine had not presently received anything and his interest was purely contingent.

Practical Implications

This case clarifies that transferee liability for gift taxes extends to trustees and donees of future interests, not just direct recipients of present gifts. It highlights the importance of considering potential gift tax liabilities when establishing trusts, even those involving future interests. Legal practitioners must assess the value of future interests using actuarial methods and advise clients on potential tax implications. This decision reinforces the IRS's ability to pursue transferees for unpaid gift taxes, even when the donor is solvent, as long as proper notice is given within the statutory timeframe. Later cases would cite this ruling for its holding on transferee liability relating to trust arrangements.

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