3 T.C. 940 (1944)

Amounts received under a life insurance policy are not considered “insurance” for estate tax exclusion purposes when the policy excludes death by suicide within a specified period, as there is no risk-shifting or risk-distribution in such a scenario.

Summary

William Douglas Chew, Jr., committed suicide within two years of taking out three life insurance policies that named his mother as the beneficiary. The policies stipulated that if the insured died by self-destruction within two years, the insurer’s liability would be limited to a refund of the premiums paid. The Tax Court addressed whether the amounts received by the mother, limited to the premiums paid, qualified as “insurance” under Section 811(g) of the Internal Revenue Code, and thus could be excluded from the decedent’s gross estate up to $40,000. The court held that the amounts did not constitute insurance because the policies did not shift the risk of premature death due to suicide within the first two years; instead, they merely provided for a return of premiums.

Facts

William Douglas Chew, Jr., purchased three life insurance policies, naming his mother, Carrie Cole Chew, as the beneficiary.
The policies contained a clause limiting the insurer’s liability to a refund of premiums paid if the insured died by suicide within the first two years.
Two of the policies were single-premium endowment policies, and the third was a twenty-payment life policy.
William Douglas Chew, Jr., died by suicide within the two-year period specified in the policies.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax of William Douglas Chew, Jr.
The estate challenged the deficiency, arguing that the insurance proceeds should be excluded from the gross estate under Section 811(g) of the Internal Revenue Code.
The Tax Court heard the case to determine whether the amounts received under the policies qualified as “insurance.”

Issue(s)

Whether the amounts received by the beneficiary of a life insurance policy, limited to a refund of premiums paid due to the insured’s suicide within two years of policy inception, constitute “insurance” under Section 811(g) of the Internal Revenue Code, thereby qualifying for exclusion from the decedent’s gross estate?

Holding

No, because the amounts received did not result from risk-shifting or risk-distributing, which are essential elements of insurance.

Court's Reasoning

The court relied on *Helvering v. Le Gierse*, 312 U.S. 531 (1941), which defined insurance as involving risk-shifting and risk-distributing. The court stated that the policies specifically excluded the risk of death by suicide within the first two years. In such an event, the insurance company was only obligated to return the premiums paid, and "no more."

Because the insurance company did not assume the risk of death by suicide during the initial two-year period, the amounts received by the beneficiary were not considered "insurance" under Section 811(g). The court emphasized that the insurance company itself described the payments as a refund of premiums.

Therefore, because there was no risk-shifting or risk-distribution with respect to death by suicide within the two-year period, the proceeds were not excludable as "insurance" from the gross estate.

Practical Implications

This case clarifies that the term "insurance" under the Internal Revenue Code requires a genuine transfer of risk. Policies with clauses that eliminate or significantly reduce the insurance company's risk in certain events may not be treated as insurance for estate tax purposes.

When analyzing whether amounts received under an insurance policy qualify for estate tax exclusion, legal practitioners should carefully examine the policy terms to determine if true risk-shifting and risk-distribution occur.

This ruling influences how insurance policies with limited liability clauses, particularly those related to suicide, are treated for estate tax planning purposes.

Later cases may distinguish *Chew* based on variations in policy language or the specific circumstances surrounding the insured's death. However, the core principle remains that a lack of risk-shifting can disqualify a payment from being considered "insurance" for tax exclusion purposes.

