Estate of Hofford v. Commissioner, 4 T.C. 790 (1945)

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A salary contract between a decedent and a company, where the decedent transferred stock into a trust, does not constitute a retention of income under Section 811(c) of the Internal Revenue Code if the salary is reasonable compensation for services rendered.

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Summary

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The Tax Court reconsidered its prior decision regarding the inclusion of stock transferred to trusts in the decedent's gross estate. The court initially held that a contract of employment effectively reserved income to the decedent, thus triggering inclusion under Section 811(c) of the Internal Revenue Code. Upon reconsideration, the court distinguished the case from *Estate of Pamelia D. Holland*, finding that the decedent's salary was reasonable compensation for services and not a disguised retention of income. Therefore, the stock's value was not includable in the gross estate.

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Facts

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William F. Hofford organized the Hofford Co. in 1909 and managed the business until his death. On December 28, 1937, Hofford created six trusts and transferred 1,200 shares of Hofford Co. stock to them. On the same day, Hofford entered into an employment contract with the Hofford Co., stipulating a salary of $15,000 per annum, payable in equal monthly installments, even if he was incapacitated. 800 additional shares were transferred to the trust January 8, 1938. The trust agreements prevented the sale of stock during Hofford's lifetime without his consent. The $15,000 salary was the same amount Hofford had drawn in previous years, and the Commissioner did not argue that it was unreasonable.

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Procedural History

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The Tax Court initially ruled in favor of the Commissioner, including the value of the stock transferred to the six trusts in Hofford's gross estate. Petitioners filed a motion for reconsideration, arguing the court's initial reliance on *Estate of Pamelia D. Holland* was misplaced. The Tax Court granted the motion for reconsideration, modifying its prior decision and ruling in favor of the Estate.

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Issue(s)

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Whether the employment contract between the decedent and the Hofford Co. constituted a retention by the decedent

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