4 T.C. 976 (1945)

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The valuation of a gift of a life income interest is determined using actuarial tables provided in Treasury Regulations, and annual gift tax exclusions apply to completed gifts in the year the gift is made, not compounded annually.

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Summary

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Jane Byrnes O’Malley-Keyes made irrevocable assignments of specified amounts of her life income from testamentary trusts to each of her five children in 1941. The Tax Court addressed the valuation of these gifts for gift tax purposes and the proper application of annual exclusions. The court held that the method used by the Commissioner in computing the value of the gifts, based on Treasury Regulations, was correct, and that O’Malley-Keyes was entitled to five annual exclusions of $4,000 each for the year 1941, the year the gifts were completed, but could not compound these exclusions annually.

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Facts

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O’Malley-Keyes was the beneficiary of income from trusts established under her father’s will. In 1941, she executed five irrevocable assignments, giving each of her children a specified annual amount from her trust income for the remainder of her life. The amounts assigned varied, totaling $12,500 annually. O’Malley-Keyes was approximately 54 years old at the time of the assignments. The trusts directed the trustees to pay income to O’Malley-Keyes semi-annually or more frequently, at their discretion.

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Procedural History

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O’Malley-Keyes filed a gift tax return for 1941, reporting the gifts and claiming exclusions that were calculated by “compounding” them annually. The Commissioner determined a deficiency, disputing the valuation method and the amount of exclusions claimed. The case was brought before the Tax Court.

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Issue(s)

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1. Whether the Commissioner’s method of valuing the gifts of income interests, as prescribed by Treasury Regulations, was correct.

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2. Whether O’Malley-Keyes was entitled to annual gift tax exclusions for each year of the assigned income stream (

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