Estate of Leaman v. Commissioner, 5 T.C. 699 (1945)

When a grantor creates an irrevocable trust with a remainder interest conditioned on the beneficiary surviving the grantor, and the grantor retains a reversionary interest by operation of law, the trust corpus is includible in the grantor's gross estate for estate tax purposes under Section 811(c) of the Internal Revenue Code.

Summary

The Tax Court held that the corpus of a trust created by the decedent was includible in his gross estate because the transfer was intended to take effect in possession or enjoyment at his death. The decedent had created an irrevocable trust, retaining a reversionary interest by operation of law because the remainder interest was contingent on the beneficiaries surviving him. The court reasoned that the decedent's death removed the contingency, thus completing the transfer. The value of the reversionary interest, though small, was deemed not insignificant.

Facts

The decedent, Thomas P. Leaman, created an irrevocable trust in 1911. The trust provided that income was to be paid to the settlor (decedent) during his life. Upon his death, the corpus was to be conveyed to his surviving children, or their issue by representation. The trust also allowed the decedent to appoint up to one-third of the corpus to his widow by will. At the time of the trust's creation, the decedent had two sons. He died in 1941, survived by his widow, one son, and a granddaughter. He exercised the power of appointment for his widow. The actuarial value of the decedent's possibility of reverter just before his death was $1,139.12. The value of the trust corpus at the date of his death was $90,406.51.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the decedent's estate tax. The executor of the estate challenged the Commissioner's determination in the Tax Court, arguing that the trust corpus should not be included in the gross estate. The Tax Court ruled in favor of the Commissioner, holding that the trust corpus was includible in the gross estate.

Issue(s)

Whether the corpus of an irrevocable trust created by the decedent in 1911 is includible in his gross estate under Section 811(c) of the Internal Revenue Code as a "transfer intended to take effect in possession or enjoyment at or after his death," due to a reversionary interest left in the decedent by operation of law because the gifts were conditioned on the recipients surviving the grantor?

Holding

© 2025 SCOTUSreports.com. All rights reserved.

Yes, because the inter vivos gifts created in the trust were conditioned on the recipients surviving the grantor, meaning that the grantor's death was the event that freed the son's interest from the contingency of the property reverting to the settlor.

Court's Reasoning

The court relied on *Helvering v. Hallock*, 309 U.S. 106 (1940), which emphasized that transfers with a reversionary interest returning the corpus to the donor upon a contingency terminable at death are includible in the gross estate. The court distinguished this case from *Estate of Harris Fahnestock*, 4 T.C. 1096, because in this case, the gifts were contingent on the recipients surviving the grantor. The court emphasized that at the time of death, only two lives stood between the decedent and a reversion, making the reversionary interest not remote. The court also noted that the reversionary interest remained in the decedent by operation of law, rather than being expressly retained. The court cited Paul, 1 Federal Estate and Gift Taxation (1942), § 7.23, arguing that "A string or tie supplied by a rule of law is as effective as one expressly retained in the trust instrument." The court emphasized that the grantor intended the transfer to take effect at death.

Practical Implications

This case reinforces the principle that even when a reversionary interest is created by operation of law, rather than by explicit reservation in the trust instrument, it can still trigger inclusion of the trust corpus in the grantor's gross estate. It highlights the importance of carefully structuring trusts to avoid contingent remainder interests where the grantor could potentially reacquire the property. It also demonstrates that even a small reversionary interest can lead to inclusion of the entire corpus, as supported by *Fidelity-Philadelphia Trust Co. v. Rothensies*, 324 U.S. 108 (1945). This ruling necessitates careful analysis of trust instruments and applicable state law to determine if any reversionary interests exist, even if not explicitly stated.

© 2025 SCOTUSreports.com. All rights reserved.