6 T.C. 587 (1946)

When two trusts are interrelated and the creation of one is effectively consideration for the other, the grantor of the second trust is deemed the settlor of the first for estate tax purposes, resulting in inclusion of the first trust's assets in the grantor's estate.

Summary

This case examines the reciprocal trust doctrine in the context of estate tax law. Frederick Lueders created a trust for his wife, Clothilde, giving her the income and the power to terminate the trust. About 15 months later, Clothilde created a similar trust for Frederick, who then terminated his trust and took the corpus. The Tax Court held that Clothilde was effectively the settlor of Frederick's trust because her trust was consideration for the continued existence of his. Therefore, the value of Frederick's trust was includible in Clothilde's gross estate under Section 811(d) of the Internal Revenue Code.

Facts

Frederick Lueders created a trust in 1930, naming himself and City Bank Farmers Trust Co. as trustees, with income to his wife, Clothilde, for life, and remainder to their children. Clothilde held the power to amend or terminate the trust. Frederick transferred substantial assets to the trust, leaving himself with minimal assets besides his salary. In 1931, Clothilde created a similar trust for Frederick, who shortly thereafter terminated that trust and took possession of the assets. Clothilde did not terminate the trust created by Frederick, and it remained in existence until her death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Clothilde Lueders' estate tax, including the value of the trust created by her husband in her gross estate. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether the value of the trust created by Frederick Lueders is includible in Clothilde Lueders' gross estate under Section 811(d) of the Internal Revenue Code, considering Clothilde's power to alter, amend, or revoke the trust, and whether she should be deemed the grantor of the trust under the reciprocal trust doctrine.

Holding

Yes, because Clothilde Lueders effectively furnished consideration for the creation and continuation of her husband's trust through the creation of a similar trust for his benefit. Thus, she is deemed the settlor of his trust for estate tax purposes.

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Court’s Reasoning

The court applied the principle that “a person who furnishes the consideration for the creation of a trust is the settlor even though in form the trust is created by another,” citing *Lehman v. Commissioner*. The court reasoned that the two trusts were reciprocal because Clothilde’s creation of a trust for her husband made it feasible for his trust to continue. The court emphasized the timing and circumstances surrounding the creation and termination of the trusts, including Frederick’s need for assets to guarantee loans to his company. The court concluded that Clothilde’s transfer of her own property to a trust for her husband constituted a *quid pro quo* for the property that was allowed to remain in the existing trust created by her husband. Dissenting judges argued that the case was indistinguishable from *Estate of Gertrude Leon Royce*, where a single trust was involved.

Practical Implications

This case clarifies the application of the reciprocal trust doctrine. It demonstrates that even if trusts are not created simultaneously, if they are interrelated and one serves as consideration for the other, the grantors may be treated as settlors of each other’s trusts for estate tax purposes. Practitioners must carefully analyze the economic realities and motivations behind the creation of trusts involving related parties, especially when powers to alter, amend, or revoke are involved. This ruling prevents taxpayers from using reciprocal trusts as a means of avoiding estate tax by effectively retaining control over assets while technically being the beneficiary rather than the grantor. Later cases have further refined the analysis of reciprocal trusts, focusing on whether the trusts left the grantors in approximately the same economic position as if they had created trusts naming themselves as beneficiaries. The case emphasizes that a mere formal exchange is not sufficient to avoid the application of the reciprocal trust doctrine if the practical effect is to circumvent estate tax laws.

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