Frazer v. Commissioner, 6 T.C. 1262 (1946)

A remainder interest in a trust is included in a decedent's gross estate for federal estate tax purposes if the interest vested in the decedent upon the testator's death, even if the decedent died before the life tenant and did not enjoy possession of the trust assets.

Summary

The Tax Court held that the value of a remainder interest in two trusts was includible in the decedent's gross estate because the interests vested in the decedent upon his father's death, the testator, not contingently upon surviving the life tenants. The will's language indicated the testator intended to divide his residuary estate among his children, with a provision for grandchildren only if a child predeceased him. Since the decedent survived his father, his remainder interest vested immediately, making it part of his taxable estate, despite his death before the trust terminated.

Facts

Robert S. Frazer (Testator) died in 1936, leaving a will that created two trusts. One trust provided income to Bridget A. Brennen for life, and the other to his daughter, Sarah B. Frazer, for life. Upon the death of each life tenant, the trust funds were to become part of the residuary estate. The residuary estate was divided into four shares: one to each of his three children (including the decedent, John G. Frazer) and one in trust for Sarah B. Frazer for life. The will also included a provision stating that if any child died leaving issue, that issue would take the share the parent would have taken "if living" and also the share of the trust funds upon their becoming part of the residuary estate.

John G. Frazer (Decedent), son of Robert S. Frazer, died in 1942, before the life tenants of the two trusts created by his father's will. The Commissioner included one-third of the value of the remainders of these trusts in John G. Frazer's gross estate for federal estate tax purposes.

Procedural History

The Commissioner determined a deficiency in federal estate tax for the estate of John G. Frazer. The estate challenged this determination, arguing that the decedent's interest in the trust remainders was contingent upon surviving the life tenants and therefore not includible in his gross estate. The case was brought before the Tax Court of the United States.

Issue(s)

1. Whether the remainder interests in the corpus of the two trusts created by Robert S. Frazer's will vested in John G. Frazer upon his father's death.

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2. Whether, if the remainder interests were vested, they are includible in John G. Frazer's gross estate under Section 811(a) of the Internal Revenue Code.

Holding

1. Yes, the remainder interests vested in John G. Frazer upon the death of his father, Robert S. Frazer, because the will's language indicated an intent to immediately vest the residuary estate in his children who survived him.
2. Yes, because the remainder interests vested in the decedent at the time of his father's death, they are includible in his gross estate under Section 811(a) of the Internal Revenue Code.

Court's Reasoning

The Tax Court reasoned that the testator's intent, as plainly expressed in the will, was to divide his residuary estate among his children. The court emphasized that the "Fourth" paragraph, which provided for issue to take a parent's share "if living," was a default provision intended to apply only if a child predeceased the testator. Since all three children, including the decedent, survived Robert S. Frazer, this default provision never became operative. The court stated, "Thus if, and only if, any child of the testator, Robert S. Frazer, predeceased him would the surviving children of such child take the share of their parent in the residue at the death of the testator. The phrase 'would have taken if living' is otherwise without meaning."

The court found that the testator's intention was clear: the trust remainders became part of the residuary estate and vested immediately in those who shared the residuary estate upon the testator's death. The court concluded that "upon the death of Robert S. Frazer legal title to one-third of the trust remainders vested in the decedent, although enjoyment thereof was postponed until the termination of the respective life estates." Because the decedent possessed this vested interest at the time of his death, it was properly included in his gross estate under Section 811(a) of the Internal Revenue Code, which taxes property to the extent of the decedent's interest at the time of death.

Practical Implications

Frazer v. Commissioner clarifies the importance of will interpretation in estate tax law, particularly concerning the vesting of remainder interests. It underscores that courts will prioritize the testator's clear intent as expressed in the will's language. For legal professionals, this case highlights the need to carefully draft wills to explicitly state when and to whom remainder interests vest to avoid unintended estate tax consequences. It demonstrates that even if a beneficiary dies before receiving actual possession of trust assets, a vested remainder interest is still part of their taxable estate. This case is instructive in analyzing similar cases involving trust remainders and the timing of vesting for estate tax purposes, emphasizing that default provisions in wills are only triggered under specific conditions, such as

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predecease of the testator.

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