Estate of Harry Holmes, T.C. Memo. 1947-47

Life insurance proceeds are includible in a decedent’s gross estate for estate tax purposes if the decedent possessed any legal incidents of ownership at the time of death, including a reversionary interest, even if the beneficiary has broad control over the policy.

Summary

The Tax Court held that proceeds from a life insurance policy were includible in the decedent’s gross estate because he retained a reversionary interest. Despite the decedent’s wife being the policy’s owner and beneficiary with powers to change beneficiaries, surrender, or borrow against the policy, the decedent would receive the proceeds if he survived his wife and children. The court reasoned that this reversionary interest constituted a legal incident of ownership, making the proceeds taxable under Section 811(g) of the Internal Revenue Code, even under regulations predating the explicit inclusion of reversionary interests as incidents of ownership. The court emphasized that the decedent’s death was necessary to terminate his potential interest in the policy proceeds.

Facts

1. Harry Holmes (decedent) died on January 10, 1941.

2. Decedent had a life insurance policy issued by Aetna Life Insurance.

3. Decedent’s wife was initially designated as the beneficiary and owner of the policy.

4. The wife had the power to change beneficiaries, surrender the policy, assign it, and borrow against it.

5. The policy terms included a reversionary interest: if the wife and children predeceased the decedent, the proceeds would revert to the decedent’s estate.

6. The Commissioner included the life insurance proceeds (over $40,000 exemption) in the decedent’s gross estate for estate tax purposes.

7. The estate argued that the wife was the absolute owner and the decedent possessed no incidents of ownership at death under the regulations in effect at the time of death.

Procedural History

1. The Commissioner determined a deficiency in estate tax, including life insurance proceeds in the gross estate.

2. The Estate petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether the proceeds of the life insurance policy on the decedent's life are includible in his gross estate under Section 811(g) of the Internal Revenue Code.

2. Whether the decedent possessed any "legal incidents of ownership" in the life insurance policy at the time of his death, considering the reversionary interest and the regulations in effect in 1941.

Holding

1. Yes. The proceeds of the life insurance policy, exceeding the $40,000 exemption, are includible in the decedent's gross estate.

2. Yes. The decedent possessed a legal incident of ownership because his death was necessary to terminate his reversionary interest in the insurance proceeds.

Court's Reasoning

1. The court acknowledged that prior to 1937, regulations considered premium payment or possession of legal incidents of ownership as grounds for inclusion. Regulations were amended after *Helvering v. St. Louis Union Trust Co.* and *Bingham v. United States* to focus on "legal incidents of ownership," which included powers like changing beneficiaries, surrendering the policy, etc.

2. The court noted that subsequent to *Helvering v. Hallock*, *Bailey v. United States*, and *Chase National Bank v. United States*, the Treasury Department amended Regulations 80 via T.D. 5032 to explicitly include reversionary interests as incidents of ownership. This amendment occurred on January 10, 1941, the date of decedent's death.

3. The court reasoned that even under the regulations predating T.D. 5032, the principle established in *Helvering v. Hallock* and related cases applied. The decedent's reversionary interest meant his death was necessary to fully vest the proceeds in the beneficiary. Quoting *Goldstone v. United States*, the court stated, "if any interest therein could come to him by reason of any contingency, then it comes squarely within the doctrine of Helvering v. Hallock."

