7 T.C. 769 (1946)

Life insurance proceeds exceeding $40,000 are includible in a decedent’s gross estate under Section 811(g) of the Internal Revenue Code if the decedent possessed any legal incidents of ownership in the policy, including a reversionary interest contingent on the beneficiary predeceasing the insured.

Summary

The Tax Court addressed whether life insurance proceeds were includible in the decedent’s gross estate for federal estate tax purposes. The Commissioner determined a deficiency, asserting the proceeds should be included. The estate argued that a prior agreement and certificate of overassessment estopped the Commissioner from re-opening the case. The court held that the proceeds were includible because the decedent retained a reversionary interest in the policy, contingent on the beneficiary predeceasing him, and the informal agreement did not prevent the Commissioner from re-evaluating the estate tax liability.

Facts

Charles H. Thieriot died in 1941. He had an insurance policy on his life issued in 1922. His wife, Frances, was initially the death beneficiary. The policy was modified several times. Ultimately, Frances was the primary death beneficiary if she survived the insured. If she did not, the proceeds went to the children, and if they were not living, to the decedent’s estate. Frances also had significant rights as the “life beneficiary,” including the power to borrow against the policy, receive the cash value, and change the beneficiary.

Procedural History

The executors filed an estate tax return, excluding the insurance proceeds. The Commissioner contested this. After negotiations, the IRS issued a statement showing an overassessment. The executrix signed a form accepting this determination. Later, the estate filed a claim for a larger refund. The Commissioner rejected the refund claim and asserted a deficiency, including the insurance proceeds in the gross estate. The estate petitioned the Tax Court, arguing estoppel.

Issue(s)

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

2. Whether the Commissioner was estopped from asserting a deficiency after issuing a certificate of overassessment based on the exclusion of the insurance proceeds?

Holding

1. Yes, because the decedent possessed a legal incident of ownership by retaining a reversionary interest in the insurance policy, contingent on the beneficiary predeceasing him.

2. No, because the issuance of a certificate of overassessment does not prevent the Commissioner from re-opening the case within the statutory period to make adjustments, absent a formal closing agreement under Section 3760 of the Internal Revenue Code.

Court's Reasoning

The court reasoned that Section 811(g) of the Internal Revenue Code includes in the gross estate life insurance proceeds exceeding $40,000 if the decedent retained any "legal incidents of ownership." Referring to *Helvering v. Hallock*, the court explained that a reversionary interest, where the proceeds would revert to the decedent's estate if the beneficiary predeceased him, constitutes such an incident of ownership. Even though the wife had the power to change the beneficiary, she did not do so. The court cited *Goldstone v. United States*, stating, "The string that the decedent retained over the proceeds of the contract until the moment of his death was no less real or significant, because of the wife's unused power to sever it at any time." The court also stated that the informal agreement between the IRS agent and the estate did not constitute a formal closing agreement as defined by Section 3760, so it did not estop the Commissioner from correcting errors in the assessment.

Practical Implications

This case highlights the importance of carefully structuring life insurance policies to avoid estate tax inclusion. Even if the beneficiary has broad control over the policy, a reversionary interest retained by the insured can trigger estate tax. Attorneys must advise clients to eliminate any possibility of the policy reverting to the insured's estate. Further, it demonstrates that preliminary agreements with the IRS do not bind the agency without a formal closing agreement. This case is significant for estate planning because it reinforces that any retained interest, no matter how remote, can cause inclusion in the gross estate and emphasizes the necessity of formal closing agreements for finality in tax matters. Later cases continue to scrutinize retained interests in assets for estate tax purposes, reinforcing the principles outlined in *Thieriot*.

