7 T.C. 1403 (1946)

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Transfers of life insurance policies are includible in a decedent’s gross estate if the transfers were made in contemplation of death, meaning the dominant motive was testamentary in nature, even if other motives were present.

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Summary

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The Tax Court addressed whether life insurance policies transferred by the decedent to his wife were includible in his gross estate as transfers made in contemplation of death under Section 811(c) of the Internal Revenue Code. The court held that the transfers were indeed made in contemplation of death because the dominant motive was testamentary, as evidenced by the timing of the transfers relative to the will’s execution and the similarity of the insurance settlement directions to the will’s trust provisions. The court also upheld the Commissioner’s valuation of an apartment building and the imposition of a penalty for the estate’s failure to file a timely tax return due to the attorney’s ignorance of the filing deadline.

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Facts

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Arthur Cronin died in 1940. In 1935, he irrevocably assigned several life insurance policies to his wife, Irene. The policies had a net value of $341,546.63 at the time of his death. During 1935, Cronin was president and general manager of Pine Ridge Coal Co., which faced challenges, including the prospective termination of a profitable contract and the need for new docking facilities. Cronin executed his last will in October 1935, leaving the residue of his estate to his wife, or to trusts for his children if she predeceased him. The estate tax return was filed late, and the estate argued this was due to the attorney’s ignorance of the filing deadline.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the estate tax liability and added a penalty for the late filing. The Estate of Cronin petitioned the Tax Court, contesting the inclusion of the insurance policies, the valuation of an apartment building, and the penalty. Certain issues were conceded by the petitioner. The Tax Court ruled in favor of the Commissioner regarding the insurance policies and the penalty, and also upheld the Commissioner's valuation of the apartment building.

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Issue(s)

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1. Whether the life insurance policies transferred by the decedent to his wife are includible in his gross estate under Section 811(c) of the Internal Revenue Code as transfers made in contemplation of death.

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2. Whether the Commissioner's valuation of the apartment building was correct.

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3. Whether the penalty for the failure to file the estate tax return on time was properly added.

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Holding

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1. Yes, because the transfers were substitutes for testamentary dispositions and were primarily actuated by motives of the sort which lead to testamentary dispositions.

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2. Yes, because the petitioner failed to overcome the prima facie correctness of the Commissioner’s determination.

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3. Yes, because ignorance of the law does not constitute reasonable cause for failure to file the return on time.

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Court’s Reasoning

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The court reasoned that the dominant purpose of the contemplation of death provision of Section 811(c) is to reach substitutes for testamentary dispositions. Quoting *City Bank Farmers Trust Co. v. McGowan*, the court emphasized that such a gift need not be in contemplation of imminent death and covers

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