8 T.C. 165 (1947)

Life insurance proceeds are includible in a decedent's gross estate if the decedent possessed any incidents of ownership in the policy or if the premiums were paid directly or indirectly by the decedent; annuity contracts are valued at the date of death, considering the then-current market rates for comparable contracts.

Summary

The Estate of Judson C. Welliver disputed the Commissioner's inclusion of life insurance proceeds and valuation of annuity contracts in the gross estate. Welliver had a life insurance policy through his employer, with premiums partially paid by the employer. He also held annuity contracts payable to him and then his widow. The Tax Court held that the full insurance proceeds were includible because Welliver had the right to change the beneficiary, and the employer's premium payments were considered compensation. The court also ruled that the annuity contracts should be valued at the date of death using the insurance company's then-current rates for comparable contracts, not the rates when the contracts were initially purchased.

Facts

Judson C. Welliver was employed by Sun Oil Co. and participated in a group life insurance policy. He had an individual policy under this group plan, with his wife as the beneficiary and the right to change the beneficiary. Sun Oil Co. paid a portion of the premiums. Welliver also owned annuity contracts that paid him a fixed sum annually, then his widow after his death. The estate elected optional valuation one year after death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The Estate challenged the Commissioner's inclusion of the full life insurance proceeds and the valuation of the annuity contracts in the gross estate. The United States Tax Court heard the case.

Issue(s)

1. Whether the full proceeds of the life insurance policy are includible in the decedent's gross estate, despite the employer paying a portion of the premiums.
2. Whether the annuity contracts should be valued as of one year after the decedent's death, using the annuity table and interest rate in effect when the contracts were made.

Holding

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1. Yes, because the decedent possessed an incident of ownership (the right to change the beneficiary), and the employer's premium payments constituted compensation, effectively making the premium payments indirectly from the decedent.
2. No, because annuity contracts are interests affected by mere lapse of time and must be valued at the date of death using the then-current market rates for comparable contracts.

Court's Reasoning

The court reasoned that under Section 811(g) of the Internal Revenue Code, life insurance proceeds are includible if the decedent had incidents of ownership or paid the premiums. The right to change the beneficiary is an incident of ownership. The court rejected the argument that subsection (B) is limited by subsection (A). Even though the employer paid a portion of the premiums, these payments were considered compensation, thus indirect payments by the decedent. The court cited Senate Finance Committee Report No. 1631, stating, "If either of these criteria are satisfied the proceeds are includible in the gross estate."

Regarding the annuity contracts, the court stated that these contracts are affected by the lapse of time, requiring valuation at the date of death. The court relied on Section 811(j)(2) of the Internal Revenue Code. The value should be the amount for which comparable contracts could be purchased at the date of death, using the insurance company's then-current annuity table and interest rate. The court cited Regulation 105, which provides, "The value of an annuity contract issued by a company regularly engaged in the selling of contracts of that character is established through the sale by that company of comparable contracts."

Practical Implications

This case clarifies the estate tax treatment of life insurance policies and annuity contracts. It emphasizes that any incident of ownership, such as the right to change the beneficiary, will cause the insurance proceeds to be included in the gross estate, regardless of who directly paid the premiums. Employer-paid premiums on employee life insurance are considered indirect payments by the employee if they are considered compensation. It also establishes that annuity contracts are valued at the date of death based on current market rates, preventing the use of outdated valuation methods that could reduce estate tax liability. This case has been cited in numerous subsequent cases involving similar issues, reinforcing its principles.

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