Florence L. Waller Estate v. Commissioner, 39 B.T.A. 921 (1944)

When calculating the taxable portion of annuity payments under Section 22(b)(2) of the Internal Revenue Code, the 'aggregate premiums or consideration paid' refers to the total amount paid for the annuity contract as a whole, not a hypothetical cost of a separate annuity benefiting only the taxpayer.

Summary

Florence Waller received annuity payments after her mother's death under two annuity contracts purchased jointly by Waller and her mother. Waller argued that the 3% taxable portion should be based on the cost of a survivorship annuity purchased separately for her life, rather than the full cost of the original joint annuities. The Board of Tax Appeals rejected this argument, holding that the statute refers to the actual premiums paid for the annuity contract in question, which in this case was the full amount paid for the joint annuities. The court emphasized that the contracts were indivisible and that no part of the premiums was a gift or anything other than consideration for the purchased annuities.

Facts

- Florence Waller and her mother jointly purchased two annuity contracts, each costing $25,000.
- The annuities provided payments to the mother during her life, and then to Waller after her mother's death.
- After her mother's death in 1940, Waller received a total of $2,034.96 in annuity payments in 1941.
- Waller argued that the 3% taxable portion of the annuity payments should be based on the cost of a separate survivorship annuity for her life expectancy commencing after her mother's death, rather than on the total $50,000 cost of the joint annuities.
- Waller presented expert testimony attempting to prove the cost of such separate survivorship annuities at the time the original contracts were purchased.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Waller's income tax based on calculating the taxable portion of the annuity payments using 3% of the total premiums paid for the original joint annuity contracts. Waller petitioned the Board of Tax Appeals for a redetermination of the deficiency.

Issue(s)

1. Whether, for purposes of Section 22(b)(2) of the Internal Revenue Code, the 'aggregate premiums or consideration paid for such annuity' should be based on the actual cost of the joint annuity contracts purchased, or on a hypothetical

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cost of a separate survivorship annuity benefiting only the taxpayer.

Holding

1. No, because the statute refers to the annuity purchased, and the evidence did not establish that the premiums paid were for anything other than the actual joint annuity contracts.

Court’s Reasoning

The court reasoned that the statute explicitly refers to the “aggregate premiums or consideration paid for such annuity,” and that “such annuity” refers to the annuity contract actually purchased. The court distinguished the case from *Maud Gillespie, 43 B.T.A. 399*, where evidence showed that only part of the property paid was actually for the annuity, with the excess being a gift or contribution. In Waller’s case, the full $25,000 for each contract was paid as consideration for the specific annuity contracts purchased. The court stated,

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