8 T.C. 1107 (1947)

The value of life insurance proceeds payable to a beneficiary as an annuity, for estate tax purposes, is the lump sum payable at death under an option exercisable by the insured, not the commuted value of the annuity payments.

Summary

The Estate of John L. Walker disputed the Commissioner's valuation of life insurance policies for estate tax purposes. Walker elected to have the policy proceeds paid to his wife in monthly installments for life, retaining the right to change beneficiaries and payment methods until his death. The Tax Court held that the value includible in the gross estate was the lump sum payable at death under the policy's options, aligning with Treasury Regulations and reflecting the annuity's replacement cost, rather than the actuarial value of the future payments. This decision affirmed the validity of the regulation and its consistent application.

Facts

John L. Walker purchased two life insurance policies, naming his wife and daughters as beneficiaries, with the right to change beneficiaries reserved. He elected to have the proceeds paid to his wife in monthly installments for life under Option 3 of the policies. Walker retained the right to change this election, but never did. At Walker's death, his wife was 53 years old. The lump sum payable at death under the policies totaled $81,126.74. The cost of a comparable annuity contract at the date of Walker's death was also $81,126.74.

Procedural History

The executrix of Walker's estate filed an estate tax return, valuing the insurance policies at $54,599 based on actuarial tables. The Commissioner determined a deficiency, valuing the policies at $81,126.74 according to Treasury Regulations. The Tax Court was petitioned to resolve the valuation dispute.

Issue(s)

Whether the value of life insurance proceeds payable to a beneficiary as an annuity should be determined for estate tax purposes as (1) the one sum payable at death under an option which could have been exercised by the insured, as per Treasury Regulations, or (2) the commuted value of the future annuity payments, based on actuarial tables?

Holding

No, the value is the one sum payable at death under an option which could have been exercised by the insured, because Treasury Regulations prescribe this method, and it reflects the actual replacement cost of the annuity.

Court's Reasoning

The court relied on Section 81.28 of Regulations 105, which stipulates that the value of insurance proceeds payable as an annuity is the lump sum payable at death under an option exercisable by the insured. The court found this regulation valid because it resulted in a valuation no higher than the cost of purchasing a comparable annuity contract at the time of death. The court emphasized that Congress had amended Section 811(g) of the Internal Revenue Code multiple times without altering the valuation method prescribed in the regulation, implying legislative approval. Citing *Estate of Judson C. Welliver* and *Mearkle's Estate v. Commissioner*, the court held that replacement cost is a proper and reasonable measure for valuing annuity contracts for estate tax purposes. The court distinguished *Estate of Archibald M. Chisholm*, noting that the regulations had changed since that case.

Practical Implications

This case confirms the validity and application of Treasury Regulations in valuing life insurance proceeds paid as annuities for estate tax purposes. It establishes that the lump-sum option at death, representing the annuity's replacement cost, is the proper valuation method, rather than actuarial computations of future payments. Attorneys should advise clients that when structuring life insurance payouts as annuities, the estate tax will be based on the lump sum available at death, influencing estate planning and potential tax liabilities. Later cases and IRS guidance continue to uphold this principle, emphasizing the importance of understanding applicable regulations and replacement cost valuation.

