Estate of Bradley v. Commissioner, 9 T.C. 145 (1947)

The corpus of a trust is includible in a decedent's gross estate for estate tax purposes if the decedent retained a contingent income interest that became possessory before death, or if the beneficiary's right to the trust corpus was contingent upon surviving the decedent, making the transfer intended to take effect at or after death.

Summary

The Tax Court determined that the corpus of two trusts established by Edson Bradley should be included in his gross estate for estate tax purposes. In the first trust (1918), Bradley retained a contingent right to income, which became absolute before his death. In the second trust (1917), the court construed a state court judgment as meaning the daughter's right to the principal was contingent on surviving Bradley. The court reasoned that in both cases, Bradley's death was the crucial event that solidified the beneficiaries' enjoyment or his own income interest, thus triggering inclusion under section 302(c) of the Revenue Act of 1926.

Facts

1. **June 29, 1918 Trust:** Edson Bradley created an irrevocable trust, naming Title Guarantee & Trust Co. as trustee.
2. The trust directed income payments: $1,000 annually to his daughter, Julie Fay Shipman, and the balance to his wife, Julia W. Bradley. The amounts could be adjusted by Edson or Julia W. Bradley.
3. Upon daughter's death, if wife survived, all income to wife for life. Upon wife's death, principal to whomever wife designated in her will (if daughter died without issue).
4. If wife predeceased daughter, daughter continued to receive her current income amount, and the balance of income to Edson Bradley, his estate, etc.
5. Upon daughter's death, principal to whomever wife designated in her will (if daughter died without issue).
6. **December 4, 1917 Trust:** Edson Bradley created an irrevocable trust, naming his wife, Julia W. Bradley, as trustee.
7. Income to daughter, Julie Fay Shipman, without time limitation.
8. If daughter predeceased wife, income to wife for life, principal to Edson if he survived wife.
9. If Edson predeceased wife, principal to whomever wife designated in her will (if daughter died without issue) upon wife's death.
10. If wife predeceased daughter and Edson survived daughter, income to Edson for life, then principal to whomever wife designated in her will (if daughter died without issue).
11. No express provision for principal if daughter survived both parents.
12. Julia W. Bradley died August 22, 1929, survived by Edson and daughter Julie.
13. Edson Bradley died June 20, 1935, survived by daughter Julie.

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Procedural History

1. **State Court Actions:** After Edson Bradley's death, daughter Julie F. Fremont initiated two separate actions in New York State Supreme Court to construe both trusts.
2. **1918 Trust Action:** New York Supreme Court ruled the trust valid, continuing for daughter's life, principal distributed upon her death to persons identified in Julia W. Bradley's will, and no power of appointment was conferred upon Julia W. Bradley.
3. **1917 Trust Action:** New York Supreme Court, affirmed by Appellate Division and Court of Appeals, ruled that because Julie Fay Shipman survived both parents, she was entitled to the principal and all income outright.
4. **Tax Court:** The Commissioner determined a deficiency in estate tax, including the corpora of both trusts in Edson Bradley's gross estate. The executrix, Julie F. Fremont, contested this determination in Tax Court.

Issue(s)

1. Whether the corpus of the 1918 trust is includible in decedent's gross estate under section 302(c) of the Revenue Act of 1926 as a transfer intended to take effect in possession or enjoyment at or after his death?
2. Whether the corpus of the 1917 trust is includible in decedent's gross estate under section 302(c) of the Revenue Act of 1926 as a transfer intended to take effect in possession or enjoyment at or after his death?

Holding

1. Yes, because the decedent retained a contingent income interest in the 1918 trust which became absolute before his death, and his death was required to terminate that interest and allow full enjoyment by others.
2. Yes, because the state court construed the 1917 trust to mean the daughter's right to the principal was contingent upon surviving the decedent, making the transfer effective at his death.

Court's Reasoning

– **1918 Trust:** The court emphasized that Edson Bradley retained a contingent interest in the income, which became absolute upon his wife's death. Before his death, Bradley had the right to receive the balance of the income (after the daughter's $1,000 annuity). Citing *Goldstone v. United States*, the court noted estate tax is based on interests at the time of death and section 302(c) includes property where "ultimate possession or enjoyment of which is held in suspense until the moment of grantor's death or thereafter." The court stated, "The retention of the income interest for a period which did not in fact end before decedent's death evidences an intention that possession or enjoyment was to be postponed beyond his death."

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– **1917 Trust:** The court deferred to the New York State court's construction that the daughter's right to the principal was contingent on surviving both parents. Based on this interpretation, the court applied the rationale of *Helvering v. Hallock*, stating, "Thus the daughter, having become entitled, under the trust instrument, to the corpus only upon surviving decedent, the transfer is one intended to take effect in possession or enjoyment at his death. The decedent's death was the event which brought into being the remainder estate of the daughter."
– The court distinguished *May v. Heiner*, stating it was not controlling because Bradley specifically retained a contingent income interest.
– The court did not find it necessary to rely on Treasury Regulations 105, section 81.17, as amended.

Practical Implications

– This case illustrates that even a contingent retained interest, especially one related to income, can cause trust corpus to be included in a grantor's gross estate if the contingency is resolved in favor of the grantor before death, or if the grantor's death is the operative event that vests beneficial enjoyment.
– It highlights the importance of analyzing the specific terms of trust instruments to determine if the grantor has retained any interests or powers that could trigger estate tax inclusion under statutes concerning transfers intended to take effect at or after death.
– State court constructions of trust documents are binding on federal courts regarding property rights, as seen in the court's reliance on the New York court's interpretation of the 1917 trust.
– This case, decided in 1947, reflects the legal landscape before significant amendments to estate tax laws, but the core principle regarding retained interests and transfers effective at death remains relevant under current IRC § 2036 (Transfers with Retained Life Estate) and § 2037 (Transfers Taking Effect at Death).

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