Estate of Cornelia B. Schwartz, 9 T.C. 229 (1947)

A transfer of assets is includable in a decedent's gross estate if it was made in contemplation of death or if the decedent retained the right to income from the transferred property for life.

Summary

The Tax Court determined that a transfer of securities by an 86-year-old woman to her children was made in contemplation of death and, alternatively, that she retained the right to income from the property for life, making the transferred assets includable in her gross estate. The decedent transferred securities worth $147,366.33 in exchange for her children's promise to pay her $7,000 annually. The children then placed the securities in trust, with the income, up to $7,000, payable to the decedent. The court reasoned that the transfer was a substitute for testamentary disposition and that the decedent effectively retained a life estate.

Facts

Cornelia B. Schwartz, at age 86, transferred securities worth $147,366.33 to her three children on June 4, 1932. In return, the children promised to pay her $7,000 per year for life. Simultaneously, the children transferred the securities to a trust, with the net income, up to $7,000, payable to their mother. Any excess income was to go to the daughter. Upon Cornelia's death, the principal was to be divided equally among the children. Cornelia also owned real property valued at $6,000 and personal effects valued at $3,000. She died approximately 12 years later from an accidental fall. In 1935, Cornelia executed a bill of sale for furniture, jewelry, and other personal property to her daughter.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax, including the value of the transferred securities and the personal property in the gross estate. The estate petitioned the Tax Court for a redetermination. The Commissioner argued that the securities transfer was either made in contemplation of death or involved a retained life estate. The estate contested both assertions.

Issue(s)

1. Whether the transfer of securities by the decedent was made in contemplation of death within the meaning of Section 811(c) of the Internal Revenue Code.

2. Whether the decedent retained for life the right to income from the transferred property, making it includable under Section 811(c).

3. Whether the decedent made a valid transfer in 1935 of furniture, jewelry, and other personal property to her daughter, thereby excluding it from her gross estate.

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Holding

1. Yes, because the transfer was a substitute for testamentary disposition, given the decedent's age, the fact that the transferred property constituted substantially all of her estate, and the arrangement for her continued receipt of income.

2. Yes, because the decedent effectively retained a life estate by arranging for the income from the transferred securities to be paid to her for life through the trust arrangement.

3. Yes, because the estate presented a valid bill of sale demonstrating the transfer of ownership to the daughter prior to the decedent's death.

Court's Reasoning

The court reasoned that the transfer of securities was made in contemplation of death because it was a substitute for testamentary disposition. The court emphasized the decedent's age (86), the fact that the transferred property constituted substantially all of her estate, and the arrangement ensuring her continued receipt of income from the securities. The court stated, "It would be closing our eyes to the obvious to assume that thoughts of these matters did not enter into the decedent's mind and motivate the transfer." Additionally, the court found that the decedent effectively retained a life estate because the trust arrangement ensured that the income from the transferred securities would be paid to her for life. The court considered the two transactions (the transfer to the children and the creation of the trust) as part of the same overall plan. Regarding the personal property, the court accepted the bill of sale as evidence of a valid transfer to the daughter, noting, "There is nothing in the record which causes us to doubt the authenticity of this bill of sale or that by reason of it the daughter became the owner of these household effects and personal belongings of decedent, except her articles of clothing."

Practical Implications

This case highlights the importance of scrutinizing transfers made by elderly individuals, especially when the transferred property constitutes a significant portion of their estate and they retain some form of benefit or control over the property. The case emphasizes that the "dominant motive" of the transferor is the key consideration. It serves as a reminder that even seemingly legitimate sales can be recharacterized as testamentary dispositions if they lack economic substance and are primarily designed to avoid estate taxes. Practitioners must carefully document the transferor's intent and ensure that transfers have a genuine lifetime purpose. Later cases distinguish Schwartz by emphasizing the presence of bona fide sales for adequate consideration and situations where the transferor relinquished all control and enjoyment of the transferred property.

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