Lester v. Commissioner, T.C. Memo. 1947-33 (1947)

Gifts made with the primary motive of reducing income taxes or improving the financial well-being of family members are considered associated with life, and not in contemplation of death, and therefore not subject to estate tax.

Summary

The Tax Court addressed whether certain transfers of property by the decedent to her children's trusts and to one child directly were made in contemplation of death, thus subject to estate tax, and the valuation of certain stock. The court found that the transfers were primarily motivated by life-associated purposes, such as reducing income taxes and providing for the financial well-being of her children, rather than in contemplation of death. The court also determined the fair market value of the stock in question.

Facts

The decedent made transfers of Pittsburgh Press Co. preference shares to trusts for her children in 1939. She also transferred a one-half interest in her residence to her daughter, with whom she lived. The decedent's attorney suggested the transfer of the shares to lessen income taxes. The decedent was also motivated by a desire to help her children and grandchildren financially. At the time of the transfers, the decedent was energetic and interested in the world around her. At her death, she still owned 100 shares of stock in the Pittsburgh Press Co.

Procedural History

The Commissioner of Internal Revenue determined that the transfers were made in contemplation of death and were subject to estate tax. The Commissioner also challenged the valuation of the stock. The case was brought before the Tax Court, which had the responsibility of determining the motivations behind the transfers and the proper valuation of the stock.

Issue(s)

1. Whether the transfers of property made by the decedent were made in contemplation of death within the meaning of Section 811(c) of the Internal Revenue Code, and therefore subject to estate tax.

2. What was the fair market value of the Pittsburgh Press Co. preference shares on December 10, 1941, and May 29, 1942.

Holding

1. No, because the transfers were primarily motivated by life-associated purposes, such as reducing income taxes and providing for the financial well-being of her

children, rather than in contemplation of death.

2. The fair market value of the shares was $75 each on both December 10, 1941, and May 29, 1942, because the court considered all the evidence and available financial information, including expert testimony.

Court's Reasoning

The court relied on *United States v. Wells, 283 U.S. 102* in determining whether the transfers were made in contemplation of death. The court found that the dominant motive behind the transfers was associated with life, not death. Specifically, the decedent was concerned about reducing income taxes and providing for her children's financial security. The court emphasized that the decedent's active and energetic lifestyle until shortly before her death further supported the conclusion that the transfers were not made in contemplation of death. Regarding the valuation of the stock, the court considered the lack of sales records, the closely held nature of the stock, and the opinions of expert witnesses. However, the court noted that the petitioner's witnesses did not have complete financial information about the issuing company. Based on the totality of the evidence, the court determined a value of $75 per share.

Practical Implications

This case illustrates the importance of establishing the motives behind lifetime gifts to avoid estate tax liability. Taxpayers can rebut the presumption of contemplation of death by demonstrating that the gifts were made for life-related purposes, such as tax planning, family support, or business reasons. It highlights the need to document the donor's intent and health at the time of the gift. It also demonstrates the importance of providing complete financial information when valuing closely held stock for tax purposes. Later cases applying this ruling would likely examine the donor's age, health, and the timing of the gifts relative to death, but also the explicit reasons documented or expressed by the donor for making the gift.

