

## **10 T.C. 915 (1948)**

A transfer of property made to settle a legitimate, unliquidated claim is considered a transaction for adequate consideration, not a gift, for gift tax purposes.

### **Summary**

Catherine Beveridge's daughter, Abby, transferred valuable property to her mother before marrying against her mother's wishes. After the marriage caused estrangement, Abby claimed the transfer was made under duress and demanded the property back, threatening a lawsuit. After negotiations, Catherine transferred \$120,000 to a trust for Abby to settle the claim. The Tax Court held that this transfer was not a gift because it was made for full and adequate consideration (the release of the claim), and not out of donative intent.

### **Facts**

In 1932, Catherine Beveridge gifted valuable real estate to her daughter, Abby. In 1934, Abby, intending to marry a German national against her mother's wishes, reconveyed the real estate back to Catherine. Catherine vigorously opposed the marriage, and the subsequent marriage in 1935 led to a complete estrangement between mother and daughter.

Catherine treated the property as her own, eventually transferring it to a trust for her son in 1941. In 1942, Abby, through an attorney, claimed the 1934 reconveyance was made under duress and demanded restitution, threatening a lawsuit if her demands were not met.

### **Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Catherine Beveridge's gift tax for 1943, arguing that the \$120,000 transferred to the trust for her daughter was a gift. Beveridge challenged this determination in the Tax Court.

### **Issue(s)**

Whether the transfer of \$120,000 to a trust for the benefit of Beveridge's daughter, made to settle the daughter's claim of duress regarding a prior property transfer, constitutes a taxable gift under federal gift tax law.

### **Holding**

No, because the transfer of \$120,000 was made for adequate and full consideration in the form of a release from a legitimate, albeit unliquidated, claim, and not out of donative intent.

### **Court's Reasoning**

The Tax Court reasoned that while the Commissioner argued no donative intent was needed based on *Commissioner v. Wemyss*, the critical factor was whether the transfer was for adequate and full consideration. The court emphasized that Beveridge's actions were economically motivated and based on advice from her attorneys to settle a potentially costly and uncertain legal claim. The court found the situation analogous to property settlements in divorce cases, which are not considered gifts. The court cited *Commissioner v. Mesta*, noting that "a man who spends money or gives property of a fixed value for an unliquidated claim is getting his money's worth." The court distinguished *Commissioner v. Wemyss* and *Merrill v. Fahs*, as those cases involved antenuptial agreements, whereas this case involved the settlement of a contested claim. The court concluded that Beveridge was seeking to free her property from her daughter's claims and gave what she considered a reasonable value for that release.

### **Practical Implications**

This case clarifies that transfers made to settle legitimate, unliquidated claims, even among family members, can be considered transactions for adequate consideration rather than gifts. Attorneys can use this case to advise clients that settlements of bona fide disputes, even if the exact value of the claim is uncertain, are generally not subject to gift tax. This ruling provides a basis for arguing against gift tax assessments in situations where a transferor receives a release from a claim or potential liability in exchange for property. Subsequent cases have cited Beveridge to support the proposition that a release of legal claims constitutes valuable consideration, impacting estate planning and dispute resolution strategies.