Catherine S. Thompson v. Commissioner, 9 T.C. 601 (1947)

A transfer of property made to settle a legitimate, unliquidated claim is considered to be for adequate consideration and is not subject to gift tax, even if the transferor lacks donative intent.

Summary

Catherine S. Thompson transferred $120,000 in trust to settle a potential lawsuit threatened by her estranged daughter. The Commissioner argued that the transfer was subject to gift tax because it was for less than adequate consideration. The Tax Court held that the transfer was not a gift because it was made to settle a bona fide, unliquidated claim, and that the release from such a claim constitutes adequate consideration. The court emphasized that the transfer was a result of an arm's length transaction to avoid costly litigation, and not motivated by donative intent.

Facts

Catherine S. Thompson had a strained relationship with her daughter. The daughter threatened to sue Thompson over certain claims. To avoid litigation, Thompson, on the advice of her attorneys, transferred $120,000 into a trust for the benefit of her daughter. Thompson's attorneys believed the settlement was economically advantageous, given the potential cost and uncertainty of litigation. Thompson did not act out of love or affection for her daughter in making the transfer.

Procedural History

The Commissioner of Internal Revenue determined that the $120,000 transfer was subject to gift tax. Thompson petitioned the Tax Court for a redetermination. The Tax Court reviewed the case and rendered a decision in favor of Thompson.

Issue(s)

Whether a transfer of property to settle a threatened lawsuit constitutes a gift subject to gift tax when the transferor lacks donative intent and the transfer is considered economically advantageous.

Holding

No, because the transfer was made to settle a legitimate, unliquidated claim, and the release from such a claim constitutes adequate consideration for gift tax purposes.

Court's Reasoning

The court reasoned that Thompson's transfer was analogous to property settlements made by spouses prior to divorce, which are generally not considered gifts. The

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court relied on precedent such as *Commissioner v. Converse*, which held that transfers pursuant to settlement agreements are not gifts. The court also cited *Commissioner v. Mesta*, stating 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*, which involved antenuptial agreements, noting that those cases did not involve the settlement of existing claims. The court concluded that Thompson acted as one would in settling differences with a stranger, and that the transfer was not motivated by donative intent.

Practical Implications

This case clarifies that transfers made to settle legitimate, unliquidated claims are generally not subject to gift tax, even in the absence of donative intent. Attorneys can advise clients that settling potential lawsuits with property transfers can be a tax-efficient strategy. This decision is important for estate planning and family law, as it provides guidance on the tax implications of settlement agreements. Later cases have cited *Thompson* to support the principle that transfers made in the ordinary course of business or to resolve bona fide disputes are not considered gifts, even if the value of the property transferred exceeds the value of the claim settled.

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