Estate of Tremaine v. Commissioner, 12 T.C. 172 (1949)

The value of the entire trust corpus, including assets transferred before June 2, 1924, is includible in the decedent's gross estate for estate tax purposes if a reversionary interest remains in the settlor, even if that interest is contingent.

Summary

The Tax Court addressed whether assets transferred to a trust before June 2, 1924, should be included in the decedent's gross estate for estate tax purposes. The decedent, Martha M. Tremaine, created a trust, and the Commissioner argued that because a reversionary interest remained with Tremaine (the trust corpus would revert to her if all beneficiaries and their issue predeceased her), the trust assets were includible in her gross estate. The court, relying on the Supreme Court's decision in Estate of Spiegel, held that the value of the entire trust corpus at the time of Tremaine's death was includible in her gross estate.

Facts

Martha M. Tremaine created a trust. The trust instrument contained a power to alter or revoke the trust with the consent of her husband. The trust provided for income distribution to beneficiaries during Tremaine's life and for distribution of the corpus upon her death. Importantly, the trust stipulated that if all beneficiaries and their surviving issue died before Tremaine, the trust corpus would revert to her.

Procedural History

The Commissioner determined a deficiency in Tremaine's estate tax. The Estate challenged the inclusion of the pre-1924 trust assets in the gross estate. The Tax Court reviewed the Commissioner's determination.

Issue(s)

Whether, under Section 811(c) of the Internal Revenue Code, the value of property transferred to a trust before June 2, 1924, should be included in the decedent's gross estate when a reversionary interest remained with the settlor.

Holding

Yes, because the Supreme Court in *Estate of Spiegel v. Commissioner*, 335 U.S. 701 (1949), held that if a reversionary interest remains in the settlor of a trust, the corpus of the trust is includible in the gross estate, even if the monetary value of the reversionary interest is small.

Court's Reasoning

The Tax Court based its decision on the Supreme Court's ruling in *Estate of Spiegel*

© 2025 SCOTUSreports.com. All rights reserved.

v. Commissioner. The court acknowledged that the facts in *Tremaine* were materially similar to those in *Spiegel*. In *Spiegel*, the Supreme Court held that the trust corpus was includible in the gross estate of the settlor because the trust instrument did not provide for the distribution of the corpus if Spiegel survived all of his children and grandchildren, implying a reversion to Spiegel under Illinois law. The Tax Court here noted the parties' concession that Ohio law similarly provided for reversion to the settlor in the event that all beneficiaries and their issue failed to survive the settlor. Since Tremaine, under Ohio law, retained a possibility that the trust corpus would revert to her, the entire value of the trust corpus was includible in her gross estate. The court stated it was bound by the precedent set in *Estate of Spiegel*, stating: "On the authority of *Estate of Spiegel v. Commissioner, supra*, and the companion case of *Commissioner v. Estate of Church*, 335 U. S. 632, both of which were decided by the Supreme Court on January 17, 1949, we hold that the value of the entire trust corpus on the date of decedent's death is includible in her gross estate for estate tax purposes."

Practical Implications

This case, decided shortly after the Supreme Court's landmark decision in *Estate of Spiegel*, reinforces the principle that even a remote reversionary interest retained by the grantor of a trust can trigger inclusion of the entire trust corpus in the grantor's gross estate for estate tax purposes. This holds true regardless of when the trust was created (even before the enactment of provisions specifically targeting trusts with retained powers). The case highlights the importance of carefully drafting trust instruments to avoid any possibility of reversion to the grantor, or understanding the estate tax implications if such a possibility exists. This ruling significantly impacts estate planning, requiring practitioners to meticulously review existing trusts and consider the potential for reversion when advising clients. Later cases have continued to grapple with the valuation and application of the *Spiegel* doctrine, but the core principle remains a critical consideration in estate tax law.

© 2025 SCOTUSreports.com. All rights reserved.