335 U.S. 701 (1949)

A trust agreement where the settlor reserves a life income in the trust property is considered to take effect in possession or enjoyment at the settlor's death, thereby requiring the inclusion of the trust corpus in the settlor's gross estate for federal estate tax purposes.

Summary

The Supreme Court addressed whether the corpus of a trust should be included in the settlor's gross estate for tax purposes when the settlor retained a life income. The Court held that because the settlor retained the income from the trust for life, the trust was intended to take effect in possession or enjoyment at the settlor's death, making the trust corpus includible in the gross estate. This decision explicitly overruled prior precedents and established a clearer standard for determining when trust assets are subject to estate tax.

Facts

The decedent established a trust, directing that the income be paid to him for life. The Commissioner of Internal Revenue sought to include the trust property in the decedent's gross estate for estate tax purposes. The Commissioner argued that because the settlor retained a life income, the trust was intended to take effect at his death.

Procedural History

The Tax Court initially heard the case, which was submitted before the Supreme Court's decisions in Commissioner v. Estate of Church and Estate of Spiegel v. Commissioner. The Tax Court ruled in favor of the Commissioner, including the trust property in the gross estate. The decision was based on the principle that retaining a life income in the trust made it effective at the settlor's death.

Issue(s)

Whether the corpus of a trust, where the settlor retained a life income, should be included in the settlor's gross estate for federal estate tax purposes.

Holding

Yes, because a trust agreement where the settlor reserves a life income is considered to take effect in possession or enjoyment at the settlor's death, making the trust corpus includible in the gross estate.

Court's Reasoning

The Supreme Court, referencing Commissioner v. Estate of Church, expressly held

© 2025 SCOTUSreports.com. All rights reserved.

that a trust agreement where the settlor reserved a life income in the trust property was intended to take effect in possession or enjoyment at the settlor's death. The Court emphasized that this decision overruled May v. Heiner and Hassett v. Welch, which had previously held that the reservation of a life estate was not sufficient to include the trust corpus in the gross estate. The Court stated that because the decedent settlor directed that the trust income be paid to him for life, the inclusion of the trust property in the gross estate was justified. As the court in *Estate of Church* stated regarding such arrangements, the settlor's death is the "indispensable and intended event which brings about the shifting of economic benefits and is clearly covered by the language of 811(c).".

Practical Implications

This decision significantly impacts estate planning by clarifying that retaining a life income in a trust will result in the inclusion of the trust's assets in the settlor's gross estate for tax purposes. Attorneys must advise clients that such arrangements will not provide estate tax benefits. This ruling necessitates careful consideration of estate planning strategies, encouraging the exploration of alternative trust structures that do not involve the settlor retaining a life income. Subsequent cases have consistently applied this principle, reinforcing the importance of avoiding retained life interests to achieve estate tax savings. Businesses managing trusts must also be aware of this rule to properly advise settlors on the tax implications of their trusts.

© 2025 SCOTUSreports.com. All rights reserved.