Estate of Judson C. Welliver, 8 T.C. 165 (1947)

Employer-paid premiums for group life insurance and employer contributions to employee profit-sharing trusts can be considered indirect payments by the employee, potentially includible in the employee's gross estate for federal estate tax purposes, depending on the specific facts and applicable tax code sections.

Summary

The Tax Court addressed whether life insurance proceeds and the corpus of a profit-sharing trust, both funded by the decedent's employer, should be included in the decedent's gross estate. The court held that life insurance proceeds attributable to employer-paid premiums were includible due to indirect payment by the decedent and incidents of ownership. However, the court found that the decedent's interest in a profit-sharing trust, payable to his issue upon his death without testamentary direction, was not includible under sections 811(c) and (d) of the Internal Revenue Code, as the employer's contributions were not considered a transfer by the decedent under the specific facts and statutory provisions of the time.

Facts

The decedent was covered by a group life insurance policy where premiums were paid partly by the employer and partly by the employee. The proceeds were payable to beneficiaries other than the estate.

The decedent was also a participant in a 10-year profit-sharing trust established by his employer. The trust corpus consisted of employer contributions as compensation. Upon the employee's death during the trust term, the corpus was payable according to the employee's testamentary directions, or to issue per stirpes in default of appointment. The decedent died intestate, and his share of the trust was paid to his two sons.

Procedural History

The case originated in the Tax Court of the United States. This opinion represents the court's initial findings and judgment on the matter of estate tax inclusion.

Issue(s)

1. Whether the portion of life insurance proceeds attributable to premiums paid by the employer under a group life insurance policy is includible in the deceased employee's gross estate.
2. Whether the decedent's share of the corpus of a profit-sharing trust, funded by the employer and payable to his issue upon his death, is includible in his gross estate under sections 811(c) and (d) of the Internal Revenue Code.

Holding

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1. Yes, because employer-paid premiums are considered payments indirectly made by the decedent, and the decedent possessed incidents of ownership through the right to change the beneficiary.
2. No, because under the specific facts and prevailing interpretation of sections 811(c) and (d) at the time, the employer's contribution to the trust was not deemed a 'transfer' by the decedent, and the decedent did not retain powers over property he had transferred.

Court's Reasoning

Life Insurance: The court relied on its prior decision in *Estate of Judson C. Welliver, 8 T.C. 165*, holding that employer-paid premiums constitute payments "directly or indirectly by the decedent" under section 811(g) of the Internal Revenue Code. The court reiterated that premiums characterized as additional compensation are attributable to the employee. Additionally, the decedent's right to change the beneficiary constituted an "incident of ownership," further justifying inclusion.

Profit-Sharing Trust: The court acknowledged that section 811(f)(1) regarding powers of appointment might have applied, but it was inapplicable due to the pre-October 21, 1942 creation date of the power and the decedent's death before July 1, 1943, as per the Revenue Act of 1942 and subsequent resolutions. The respondent argued that the employer's contribution was an indirect transfer by the decedent, as his employment and services were consideration for the contributions. The court rejected this argument, distinguishing it from scenarios where the employer was contractually obligated to provide additional compensation or where the decedent exercised a power to alter beneficial rights. The court stated, "The most that can be said, in a realistic appraisal of the situation here present, is that the employer, under no compulsion or obligation to do so, decided to award additional compensation to decedent, and, with the knowledge and consent of decedent, decided to, and did, effectuate this award of additional compensation by creating the trust and transferring the property here involved…" The court concluded that absent a direct transfer or procurement of transfer by the decedent, sections 811(c) and (d) were inapplicable, even if policy considerations might suggest inclusion.

Practical Implications

This case clarifies the treatment of employer-provided benefits in estate taxation, particularly in the context of life insurance and profit-sharing plans. It highlights that employer-funded life insurance is likely includible in an employee's gross estate due to the concept of indirect payment and incidents of ownership. However, regarding profit-sharing trusts (under the law as it stood in 1947 and before amendments related to powers of appointment were fully applicable), the court narrowly construed the 'transfer' requirement of sections 811(c) and (d), requiring a more direct action by the decedent to trigger estate tax inclusion in situations where the benefit was purely employer-initiated and directed. This case underscores the importance of analyzing the specific terms of benefit plans and the nuances of tax

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code provisions in effect at the relevant time when determining estate tax implications. Later legislative changes and case law have significantly altered the landscape of estate taxation of employee benefits, especially concerning powers of appointment and qualified plans.

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