12 T.C. 569 (1949)

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Employer-provided benefits, like life insurance premiums, can be considered indirect payments by the employee, making the proceeds includible in the employee's gross estate for tax purposes, but a transfer from an employer directly to an employee's issue, without any legal obligation or claim from the employee, is not a transfer 'procured' by the employee and therefore not includible in the gross estate under sections 811(c) or 811(d) of the Internal Revenue Code.

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Summary

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The Tax Court addressed whether life insurance proceeds and a share of a profit-sharing trust, both provided by the decedent's employer, should be included in the decedent's gross estate for federal tax purposes. The court held that the life insurance proceeds were includible because the employer's premium payments constituted indirect payments by the decedent. However, the court found that the decedent's share of the profit-sharing trust, paid directly to his issue, was not includible because the decedent never had a legal right or claim to the money, and thus never transferred anything.

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Facts

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Eugene Saxton worked for Harper & Brothers, who provided a group life insurance policy for its employees, including Saxton. Saxton paid a portion of the premiums for a $9,500 policy, while Harper & Brothers paid the rest. Saxton also received a $500 policy for which he paid no premiums. Saxton's wife was the beneficiary. Harper & Brothers also created a profit-sharing trust for employees, including Saxton. Upon an employee's death, their share was to be paid according to their will or, absent that, to their issue. Saxton died without directing his share, which was then paid to his children.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in estate tax liability, arguing that the entire life insurance proceeds and the trust distribution should be included in Saxton’s gross estate. Saxton’s estate challenged this determination in the Tax Court.

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Issue(s)

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1. Whether the entire proceeds of the group life insurance policy are includible in the gross estate, including the portion of premiums paid by the employer.

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2. Whether the decedent’s share of the profit-sharing trust, paid to his issue due to his death, is includible in the gross estate under sections 811(c) or 811(d) of the Internal Revenue Code.

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Holding

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1. Yes, because the employer’s premium payments were considered indirect payments by the decedent and because the decedent had incidents of ownership in the policy, such as the right to change the beneficiary.

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2. No, because the decedent never legally owned or controlled the trust assets; his employer’s direct transfer to his issue was not a transfer by the decedent.

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Court’s Reasoning

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Regarding the life insurance, the court relied on *Estate of Judson C. Welliver, 8 T.C. 165*, which held that employer-paid premiums characterized as additional compensation are considered payments

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