12 T.C. 754 (1949)

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A transfer of funds to purchase a joint and survivor annuity prior to 1931 is considered a transfer intended to take effect at death and is includable in the decedent's gross estate for estate tax purposes; the amount to be included is the cost of a comparable annuity contract at the time of the decedent's death.

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Summary

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Mary Pruyn and her sister purchased joint and survivor annuity contracts prior to 1931. Mary died in 1943, and the Commissioner of Internal Revenue included a portion of the annuity's value in her gross estate, determining that it was a transfer intended to take effect at death. The Tax Court upheld the Commissioner's determination, finding that the transfer of funds that resulted in the sister's benefit being postponed until after Mary's death was indeed a transfer intended to take effect at death. The court determined that the appropriate valuation was the replacement cost of a comparable annuity contract at the time of Mary's death. This case clarifies the application of estate tax laws to pre-1931 annuity contracts, especially in light of evolving interpretations of what constitutes a transfer intended to take effect at death.

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Facts

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Mary L. Pruyn and her sister, Nellie K. Pruyn, purchased four joint and survivor annuity contracts from different insurance companies in 1929 and 1930. Each sister paid one-half of the total consideration for the contracts. The contracts were nonparticipating and nonrefundable. Upon Mary's death in December 1943, the annuity payments continued to Nellie as the surviving annuitant. At the time of Mary's death, Nellie was 86 years old. The Commissioner determined that a portion of the value of these annuities should be included in Mary's gross estate for estate tax purposes.

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Procedural History

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The executrix of Mary Pruyn's estate filed an estate tax return, reporting the annuities at a certain value. The Commissioner adjusted the values upward, determining that the annuities were includable in the gross estate at their replacement cost as of the date of death. The executrix petitioned the Tax Court for a redetermination of the deficiency.

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Issue(s)

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Whether the purchase of a joint and survivor annuity prior to March 3, 1931, constitutes a transfer intended to take effect at death under Section 811(c) of the Internal Revenue Code, thus requiring inclusion in the decedent's gross estate.
Whether the proper valuation of the includable portion of the annuity is the cost of a comparable annuity at the time of the decedent's death.

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Holding

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Yes, because the transfer of funds resulted in the postponement of the benefit conferred upon the surviving sister until after the decedent's death, constituting a transfer intended to take effect at death.
Yes, because the cost of a comparable annuity at the date of death is the best evidence of the value of the property transferred.

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Court's Reasoning

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The court relied on *Commissioner v. Estate of Church, 335 U.S. 632*, which repudiated *May v. Heiner, 281 U.S. 238*, cases that had previously influenced the interpretation of transfers taking effect at death. The court reasoned that because Mary's arrangement with the insurance companies postponed the benefit to her

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sister until after her death, it was a transfer of property in which she retained enjoyment during her lifetime. The court rejected the argument that the reciprocal right to inherit from her sister constituted adequate consideration, finding it

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