13 T.C. 159 (1949)

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A death benefit paid by the New York Stock Exchange Gratuity Fund to a member's widow is not considered life insurance for estate tax purposes under Section 811(g) of the Internal Revenue Code because it lacks the elements of risk-shifting and risk-distributing inherent in a true insurance contract.

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Summary

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The Tax Court addressed whether a $20,000 death benefit paid to the widow of a deceased member of the New York Stock Exchange (NYSE) from the NYSE's Gratuity Fund should be included in the decedent's gross estate as life insurance under Section 811(g) of the Internal Revenue Code. The court held that the payment did not constitute life insurance because the Gratuity Fund lacked the essential elements of risk-shifting and risk-distributing. The NYSE's obligation was merely to pay over what it collected from surviving members, and participation did not depend on factors like health or age.

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Facts

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Max Strauss, the decedent, was a member of the NYSE from 1925 until his death in 1944. As a member, he was subject to the NYSE constitution, which included provisions for a Gratuity Fund. Upon admission, members paid $15 to the fund and pledged to make a $15 voluntary gift upon the death of any other member. The NYSE pledged to pay $20,000 to the deceased member's family from the collected funds. Strauss's widow received $20,000 from the Gratuity Fund after his death. The IRS sought to include this amount in Strauss's gross estate, arguing it was life insurance proceeds.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the estate tax. The executrix of Strauss's estate, Marjorie F. Treganowan, petitioned the Tax Court for a redetermination, contesting the inclusion of the $20,000 death benefit in the gross estate.

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Issue(s)

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Whether the $20,000 death benefit paid to the decedent's widow by the NYSE Gratuity Fund constitutes proceeds of life insurance includible in the decedent's gross estate under Section 811(g) of the Internal Revenue Code.

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Holding

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No, because the death benefit from the NYSE Gratuity Fund does not constitute life insurance within the meaning of Section 811(g) of the Internal Revenue Code, as it lacks the essential elements of risk-shifting and risk-distributing.

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Court's Reasoning

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The Tax Court relied on the Supreme Court's decision in *Helvering v. Le Gierse, 312 U.S. 531 (1941)*, which defined insurance as involving risk-shifting and risk-distributing. The court emphasized that true life insurance is a device to shift and distribute the risk of loss from premature death. The court found that the NYSE Gratuity Fund lacked these characteristics. The NYSE's obligation was limited to paying out what it collected from members, and participation did not depend on factors such as the member's health, age, or life expectancy. The court noted, "Neither the health nor the age of the member nor his living habits are taken into account in determining the member's payments." Because the Gratuity Fund did not involve an agreement to pay a specified amount based on an assessment of mortality risk, it was not insurance for estate tax purposes. The court distinguished this case

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from New York’s teacher retirement system, where benefits were calculated using mortality tables and actuarial data. The dissenting opinion argued that the majority’s definition of life insurance was too narrow and that assessment-based insurance, like the Gratuity Fund, historically and commonly constitutes life insurance.

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Practical Implications

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This case clarifies the definition of

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