14 T.C. 414 (1950)

For gift tax purposes, the fair market value of property is the price a willing buyer would pay a willing seller, and a recent arm's-length purchase of the gifted item is strong evidence of that value, including any excise taxes paid at the time of purchase.

Summary

The Tax Court addressed whether the value of a diamond ring for gift tax purposes should include the federal excise tax paid at the time of purchase. Frank Miller Gould purchased a ring for $63,800, which included a $5,800 federal excise tax, and gifted it to his wife shortly after. The Commissioner argued the gift's value was $63,800, while Gould's estate contended it was $58,000 (excluding the tax). The court held that the ring's value for gift tax purposes was $63,800, the actual purchase price, because the recent arm's-length transaction was the best evidence of its fair market value.

Facts

On September 29, 1943, Frank Miller Gould purchased a diamond ring from a retail jeweler in New York City for $63,800. This price included $58,000 for the ring itself and $5,800 for the federal excise tax. Gould presented the ring as a gift to his wife in Georgia approximately one week later. On the gift tax return, the value of the ring was reported as $58,000.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Gould's gift tax for 1943, asserting the ring's fair market value at the time of the gift was $63,800. The case was brought before the Tax Court to resolve the valuation dispute.

Issue(s)

Whether the fair market value of a gift, for gift tax purposes, includes the federal excise tax paid by the purchaser at the time of the purchase, when the gift is made shortly after the purchase?

Holding

Yes, because the recent arm's-length sale is the best evidence of the property's fair market value, and the excise tax was part of the price a willing buyer paid to a willing seller.

Court's Reasoning

The court relied on the principle that the value of property for gift tax purposes is

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the price a willing buyer would pay a willing seller. The court emphasized that the arm's-length sale occurring just one week prior to the gift was the best evidence of the ring's value. The court rejected the argument that the excise tax should be excluded because the seller remitted it to the government. The court noted, "Generally, such a sale is regarded as the best evidence of the value of the article involved, i. e., the amount of money which changed hands in the sale and purchase is regarded as the value of the article." The court further reasoned that if Gould had gifted his wife the money to buy the ring, the gift amount would clearly have been $63,800; therefore, gifting the ring purchased for that amount should be treated the same way. The court cited *Guggenheim v. Rasquin, 312 U.S. 254*, drawing an analogy to insurance policies valued at their cost to acquire, not their cash surrender value.

There were multiple dissenting opinions. Judge Disney argued that taxing the excise tax amounts to taxing a tax, which is not appropriate. Judge Harron pointed to Section 2403(c), arguing it implies the excise tax is to be excluded, while Judge Johnson agreed with Harron and noted the tax is already paid by the purchaser, meaning including it again would be inappropriate.

Practical Implications

This case reinforces that a recent, arm's-length purchase price is strong evidence of fair market value for gift tax purposes. It clarifies that taxes directly tied to the purchase, such as excise taxes, are included in the valuation. Attorneys advising clients on gift tax matters should consider recent purchases of gifted property as a key factor in determining value. It also highlights the importance of documenting all components of a purchase price, including taxes, to accurately assess gift tax liability. This case serves as a reminder that the focus is on what a willing buyer pays to a willing seller, not on the seller's net profit after taxes or other expenses.

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