*14 T.C. 534 (1950)*

When life insurance premiums are paid from a joint bank account, the portion of the proceeds includible in the decedent's gross estate is the proportion represented by premiums indirectly paid by the decedent, excluding premiums traceable to the surviving spouse's separate property.

**Summary**

The Tax Court addressed whether life insurance proceeds were includible in the decedent's gross estate under Section 811(g)(2) of the Internal Revenue Code. The decedent's wife owned five life insurance policies on his life, paying premiums from a joint checking account. The IRS argued the decedent indirectly paid the premiums. The court held that premiums paid from the decedent's funds were indirectly paid by him, but premiums traceable to the wife's separate property were not. The court determined the portion of the proceeds includible in the decedent's gross estate based on this calculation.

**Facts**

Helen Saunders applied for and owned five life insurance policies on her husband, Albert Saunders. She was the beneficiary. Albert possessed no ownership incidents. Premiums were paid from a joint checking account held by Albert and Helen. Helen deposited Albert's salary and bonuses, her own investment income, and gifts from Albert into this account. Helen drew checks from the joint account to pay household expenses, educate their children, and pay life insurance premiums. From January 10, 1941, until Albert's death on September 18, 1945, total premiums paid were $8,757.85.

**Procedural History**

The Commissioner of Internal Revenue determined a deficiency in Albert's estate tax, including a portion of the life insurance proceeds in his gross estate. The estate paid the deficiency and sued, claiming an overpayment. The Tax Court addressed whether the insurance proceeds were includible under Section 811(g)(2) of the Internal Revenue Code.

**Issue(s)**

Whether any portion of the life insurance premiums paid by Helen Saunders after January 10, 1941, were indirectly paid by the decedent, Albert Saunders, and therefore includible in his gross estate under Section 811(g)(2) of the Internal Revenue Code.

**Holding**

No, only to the extent the premiums were paid with funds originating from the decedent. Yes, because the Tax Court held that $8,195.85 of the $8,757.85 expended for premiums after January 10, 1941, was indirectly paid by the decedent. Thus, that proportion of the proceeds is includible in the decedent's gross estate.

## Court's Reasoning

The court reasoned that Section 811(g)(2) includes insurance proceeds in the gross estate to the extent the premiums were paid directly or indirectly by the decedent. Regulation 105, section 81.27, interprets "paid indirectly by the decedent" broadly, intending to prevent estate tax avoidance. The court cited *Rule v. United States*, which held that if insurance premiums were paid out of jointly-owned property, the surviving spouse can only be said to have taken them out to the extent they prove the payments were made out of property originally owned by her.

The Tax Court found that the joint checking account consisted almost exclusively of the decedent's funds. While Helen made deposits, including $3,745.56 from a mortgage payoff and $2,500 as a gift from Albert, the court found that the estate could not trace the $3,745.56 specifically to premium payments. However, the court determined the $2,500 gift, deposited July 2, 1945, was traceable. The court found that only $562 of Helen's separate property contributed to the premium payments between July 5 and September 18, 1945, when considering the balance and withdrawals from the joint account. Therefore, the decedent indirectly paid $8,195.85 in premiums.

## Practical Implications

This case highlights the importance of tracing the source of funds used to pay life insurance premiums when determining estate tax liability. When premiums are paid from a joint account, the burden is on the estate to prove the premiums were paid from the surviving spouse's separate property. Absent such proof, the premiums are deemed to have been indirectly paid by the decedent, increasing the taxable estate. Proper record-keeping becomes crucial in estate planning to avoid unintended tax consequences related to life insurance policies and jointly held assets. This ruling informs how courts analyze similar cases involving commingled funds and life insurance premium payments.