14 T.C. 652 (1950)

Gifts to trusts that convey future interests to the beneficiaries do not qualify for the gift tax exclusion under Section 504(b) of the Revenue Act of 1932; furthermore, failure to file a gift tax return when taxable gifts are made mandates a 25% addition to the tax.

Summary

The Estate of Louis Stockstrom petitioned the Tax Court, contesting the Commissioner's denial of gift tax exclusions for gifts made to trusts for the benefit of Stockstrom's children and grandchildren, and contesting the imposition of a penalty for failure to file a gift tax return. The gifts were made in 1938, and no return was filed because the trustee believed the gifts qualified for the $5,000 exclusion. The Tax Court upheld the Commissioner's determination that the gifts represented future interests, ineligible for the exclusion, and that the penalty for failure to file a return was mandatory. The Court reasoned that Supreme Court precedent established that gifts in trust are to the beneficiaries, and the nature of the interest (present or future) determines eligibility for the exclusion. The failure to file a return triggered the penalty, regardless of reasonable cause.

Facts

In January 1936, Louis Stockstrom created ten trusts: three for his children and seven for his grandchildren. He made gifts to these trusts in 1936, 1937, and 1938. Gift tax returns were filed for 1936 and 1937, but not for 1938. For 1936, a refund was received after claiming exclusions. In 1938, the gifts to the trusts each had a value of less than $5,000, totaling $34,612.50. No gift tax return was filed for 1938 because Stockstrom's trustee believed exclusions were allowable for each gift. A revenue agent discovered the missing return in 1941.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in gift tax against the Estate of Louis Stockstrom for 1938, along with a penalty for failure to file a return. The Estate petitioned the Tax Court, contesting both the deficiency and the penalty. The Tax Court upheld the Commissioner's determination.

Issue(s)

1. Whether the Commissioner erred in determining that gifts to trusts created by Louis Stockstrom in 1938 were gifts of future interests to which no gift tax exclusions apply.

2. Whether the Commissioner erred in adding a 25% penalty to the gift tax deficiency for 1938, given that no gift tax return was filed for that year.

Holding

1. No, because the gifts in trust conveyed future interests to the beneficiaries, rendering them ineligible for the gift tax exclusion under Section 504(b) of the Revenue Act of 1932.

2. No, because Section 519 of the Revenue Act of 1932 mandates the imposition of a 25% penalty when a taxpayer fails to file a gift tax return.

Court's Reasoning

The court relied on *Helvering v. Hutchings, 312 U.S. 393 (1941)*; *United States v. Pelzer, 312 U.S. 399 (1941)*; and *Ryerson v. United States, 312 U.S. 405 (1941)*, which established that gifts in trust are gifts to the beneficiaries, and the right to an exclusion depends on whether each beneficiary acquired a present or future interest. The Court cited Treasury Regulation 79 (1933 Ed.) as a correct interpretation of Section 504(b). The Estate argued that earlier, erroneous interpretations of the law should apply, but the Court rejected this, stating that the Commissioner was bound to apply the law as set forth in the Supreme Court's decisions. The Court noted that the Estate failed to provide the trust instruments, preventing the court from independently assessing whether any beneficiaries received a present interest. Regarding the penalty, the Court pointed to the mandatory language of Section 519 of the Revenue Act of 1932, stating, "In case of any failure to make and file a return required by this title… 25 per centum of the tax shall be added to the tax…" The Court stated that the

