14 T.C. 657 (1950)

A pension payable to a surviving spouse under a compulsory employer pension plan, where the employee had no control over beneficiary designation or benefit amount and the pension was subject to contingencies, is not considered a transfer intended to take effect at or after death, and thus is not includible in the decedent's gross estate under Section 811(c) of the Internal Revenue Code.

Summary

The Tax Court addressed whether the commuted value of a pension payable to the decedent's widow under his employer's compulsory pension plan should be included in his gross estate for estate tax purposes. The decedent participated in the plan, contributing a portion of his salary, as did his employer. The plan provided for a pension to the employee upon retirement and, upon his death, a smaller pension to his widow. The decedent had no power to alter the beneficiary or the amount of the benefit. The court held that because the decedent had no control over the designation of the beneficiary, and because the pension was subject to contingencies, the commuted value of the widow's pension was not includible in the decedent's gross estate.

Facts

William S. Miller was employed by the Northern Trust Company from 1900 until his retirement in 1944. During his employment, he participated in the company's pension fund and trust, contributing a portion of his salary. The pension plan was compulsory, requiring nearly all employees to participate. Upon Miller's retirement, he received a monthly pension. Upon his death, his widow became entitled to a pension of $3,000 per year. Miller had no right to designate the beneficiary of the survivor pension, nor could he control the amount. The pension benefits were subject to modification or termination based on various contingencies outlined in the plan.

Procedural History

The Northern Trust Company, as executor of Miller's estate, filed a federal estate tax return that did not include the value of the widow's pension. The Commissioner of Internal Revenue determined a deficiency, including the commuted value of the widow's pension in Miller's gross estate. The Tax Court was petitioned to review the Commissioner's determination.

Issue(s)

Whether the commuted value of the pension payable to the decedent's widow under the Northern Trust Company's pension plan constituted a transfer by the decedent intended to take effect in possession or enjoyment at or after his death within the meaning of Section 811(c) of the Internal Revenue Code, thereby making it

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includible in his gross estate.

Holding

No, because the decedent's participation in the pension plan was compulsory, he had no control over the designation of the beneficiary or the amount of the pension, and the pension was subject to contingencies that could cause its reduction or elimination. Therefore, there was no transfer from the decedent to his wife to take effect at his death.

Court's Reasoning

The court distinguished this case from prior cases involving joint and survivor annuity contracts purchased by the decedent, where the decedent had made a voluntary transfer of property rights. In those cases, the decedent irrevocably designated the surviving annuitant. Here, Miller's participation in the pension plan was compulsory; he had no control over who would receive the survivor benefits, and his rights and his wife's rights were subject to significant contingencies, like Miller taking employment with another bank. The court found that the pension rights did not constitute fixed and enforceable property rights susceptible to transfer by the decedent. The court noted that Miller's contributions to the plan did not necessarily correlate with the widow's pension, as unmarried employees also contributed at the same rate. Rule 24 offered an election for an *additional* amount for the wife in the event she survived, which Miller never exercised. The court concluded that Miller's involvement in the pension plan did not constitute a "transfer" within the meaning of Section 811(c).

Practical Implications

This case illustrates that not all benefits received by a survivor of a deceased employee are includible in the employee's gross estate. Key factors in determining includibility are the employee's control over the benefit (i.e., the ability to designate the beneficiary and/or the amount of the benefit) and whether the benefit was subject to contingencies that could cause its reduction or elimination. The compulsory nature of the pension plan and lack of control by the employee were critical to the court's determination. Attorneys should carefully analyze the terms of any employee benefit plan to determine the extent of the employee's control and the presence of any contingencies before advising clients on the estate tax implications of such plans. Later cases have distinguished this ruling by emphasizing the degree of control the decedent had over the transferred assets or benefits.

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