15 T.C. 204 (1950)

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The value of a portion of the corpus of an inter vivos trust is includable in the grantor's gross estate under Section 811(a) of the Internal Revenue Code, to the extent the grantor retained a reversionary interest.

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Summary

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The Tax Court addressed whether a portion of an inter vivos trust created by the decedent should be included in his gross estate under Section 811(a) of the Internal Revenue Code. The decedent established a trust in 1919 to provide for his then-wife and daughter, with excess income payable to himself or his estate. The Commissioner argued that the portion of the trust exceeding the amount needed to generate $12,000 annually for the daughter and the value of the wife's annuity should be included in the gross estate. The Tax Court determined that a portion of the trust corpus should be included in the gross estate, considering the decedent's retained interest in the excess income and the ultimate reversion of a portion of the corpus to his estate.

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Facts

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Walter J. Hill (decedent) created an inter vivos trust in 1919. The trust provided income to his then-wife, Dorothy Barrows Hill, and their daughter, Dorothy. The trust was to terminate upon the death of the last to die of the wife and daughter. Upon certain events, such as the wife's remarriage, a portion of the trust corpus was to be returned to the decedent. Any excess income after expenses and payments to the wife and daughter was to be paid to the decedent or his estate. The trust was initially funded with $900,000 in bonds. At the time of the decedent's death, the trust corpus was valued at $786,569.60.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in the decedent's estate tax. The estate challenged the Commissioner's determination, arguing that no part of the trust corpus should be included in the gross estate, or, alternatively, only the present worth of the right to receive the excess income during the trust's existence. The Tax Court was tasked with deciding the issue.

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Issue(s)

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Whether a portion of the value of the trust created by the decedent should be included in his gross estate under Section 811(a) of the Internal Revenue Code because the decedent retained a reversionary interest.

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Holding

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Yes, because the decedent retained a valuable interest in the trust, including the right to receive excess income during the trust's existence and a potential reversion of a portion of the corpus to his estate upon termination of the trust.

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Court's Reasoning

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The Tax Court relied on Section 811(a) of the Internal Revenue Code, which includes in the gross estate the value of property to the extent of the decedent's interest therein at the time of his death. The court analogized the situation to *Adriance v. Higgins*, 113 F.2d 1013, where a trust created as security for alimony payments was included in the husband's estate. The court reasoned that the decedent retained a valuable interest in the trust because excess income was payable to his estate, and a portion of the corpus could revert to his estate under certain circumstances. The court rejected the estate's argument that the trustees' discretion to retain corpus for the daughter's issue meant no part of the corpus should be included. The court determined that $360,000 would adequately provide $12,000 annually for the

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daughter and her issue, concluding that the remaining balance of the trust should be included in the gross estate. The Court noted that the decedent

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