16 T.C. 16 (1951)

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When an employer pays the entire cost of a group annuity contract, annuity payments received by a surviving beneficiary are fully includible in the beneficiary's gross income under Section 22(a) or 22(b)(2) of the Internal Revenue Code.

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Summary

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Ella B. Higgs received $7,000.08 in 1948 as the designated dependent of her deceased husband under a group annuity contract fully funded by his employer, Socony Vacuum Oil Co. Neither Higgs nor her husband contributed to the plan. The Tax Court held that the entire amount was includible in Higgs' gross income, rejecting her argument that she had a cost basis in the annuity. The court emphasized that because neither she nor her husband paid any consideration for the annuity, the payments were taxable income to her. The court also ruled Section 126(c) of the Internal Revenue Code inapplicable. Because the appellate court reversed a prior decision and held nothing should be included in the decedent's estate, section 126(c) providing a deduction for estate tax did not apply.

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Facts

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William J. Higgs was an employee of Socony Vacuum Oil Co., which maintained a qualified pension and retirement plan funded through a group annuity contract with Metropolitan Life Insurance Co. Higgs elected a reduced retirement annuity, ensuring his designated dependent, Ella B. Higgs, would receive an annuity of $7,000 annually upon his death. Socony Vacuum Oil Co. paid the entire cost of the annuity. Ella B. Higgs received $7,000.08 in 1948 as a result of this arrangement. The estate tax return for William Higgs initially did not include any amount related to the annuity, but the Commissioner later determined that $78,036 should be added to the gross taxable estate.

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Procedural History

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Higgs filed an income tax return for 1948 without including the $7,000.08 annuity payment. The Commissioner determined a deficiency, asserting the annuity payment was taxable income. Higgs petitioned the Tax Court, contesting the deficiency. Separately, the Tax Court initially ruled in *Estate of William J. Higgs*, 12 T.C. 280, that the value of the annuity should be included in William Higgs' estate. This decision was later reversed by the Third Circuit Court of Appeals, which held that nothing should be included in the decedent's estate.

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Issue(s)

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Whether annuity payments received by a surviving beneficiary under a group annuity contract, where the employer paid the entire cost, are includible in the beneficiary's gross income.

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Holding

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Yes, because neither the petitioner nor her deceased husband paid any consideration for the annuity contract; therefore, the annuity payments constitute taxable income to the petitioner.

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Court's Reasoning

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The Tax Court relied on Section 22(b)(2) of the Internal Revenue Code, which addresses the taxation of annuities. The court noted that Treasury Regulations 111, section 29.22(b)(2)-5, states that if a beneficiary receives annuity payments after the death of a retired employee under the terms of the annuity contract, those amounts are included in the beneficiary's income to the extent they would have been included in the employee's income had he lived and received the payments. The court

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rejected Higgs' argument that she had a cost basis in the annuity equal to the amount initially included in her husband's gross estate, noting the Third Circuit's reversal of the estate tax decision. The court stated that

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