16 T.C. 535 (1951)

In estate tax cases involving trusts created before the 1949 amendment to Section 811(c) of the Internal Revenue Code, the burden is on the Commissioner to prove the existence of a reversionary interest or resulting trust in the grantor-decedent's estate for the trust corpus to be included in the gross estate.

Summary

The case concerns the estate tax liability of William Beale Hibbs, who died in 1937. The Commissioner sought to include the value of property transferred to two trusts in Hibbs' gross estate, arguing that a reversionary interest existed. The trusts, created in 1928, provided life estates for Hibbs and his daughter, with the remainder to Hibbs' grandsons. The Tax Court held that the Commissioner failed to prove the existence of a reversionary interest or resulting trust in Hibbs' estate, as the trust instruments did not explicitly require the final remaindermen (the sisters' issue) to survive, and thus the property should not be included in the gross estate.

Facts

William Beale Hibbs created two trusts in 1928. The first trust granted Hibbs a life estate, followed by a life estate to his daughter, Helen Hibbs Legg, with the remainder to his grandsons, William B. Hibbs Legg and Edgar Kent Legg, III. If either grandson predeceased the life tenants leaving issue, the issue would take their share. If both grandsons died without issue, the remainder would go to Hibbs' sisters, Minnie Hibbs McClellan and Blanche Hibbs Homiller, or their issue. The second trust provided a life estate to Hibbs' sister, Minnie Hibbs McClellan, then to Hibbs, then to his daughter, with similar remainder provisions to the grandsons and sisters. Hibbs died in 1937.

Procedural History

The Commissioner initially determined a deficiency in Hibbs' estate tax liability, including the value of property in several trusts. The Commissioner later conceded that those trusts were not includible, but amended the answer to assert a deficiency based on the two trusts created in 1928. The Tax Court addressed whether any interest in the property transferred to these two trusts should be included in Hibbs' gross estate.

Issue(s)

Whether the Commissioner proved that a reversionary interest or resulting trust existed in William Beale Hibbs' estate regarding the property transferred to the trusts created on June 1, 1928, and November 20, 1928, such that the value of the trust property should be included in his gross estate for estate tax purposes.

Holding

No, because the Commissioner, who had the burden of proof due to affirmative pleadings, did not demonstrate that there was a possibility of reversion or a resulting trust in the grantor-decedent. The trust instruments did not explicitly require the final remaindermen (the sisters' issue) to survive, which meant the property would pass to their heirs even if they predeceased the life tenants.

Court's Reasoning

The Tax Court emphasized that it was considering the case under the law as it existed before the 1949 amendment to Section 811(c) of the Internal Revenue Code, which significantly changed the treatment of reversionary interests. The court analyzed the trust instruments to determine whether there was any possibility of the trust property reverting to Hibbs' estate if all named remaindermen predeceased the life tenants. The court considered arguments related to resulting trusts, the interpretation of the term "issue", and the application of District of Columbia and Virginia law. The court distinguished the case from *Estate of Spiegel v. Commissioner*, 335 U.S. 701 (1949), noting that the trust in *Spiegel* manifested an intent that the children could not dispose of their shares if they predeceased the settlor without issue. The Tax Court found that the trust instruments in Hibbs' case did not explicitly require the final remaindermen (the issue of Hibbs' sisters) to survive the life tenants. The court noted the absence of a survival requirement and the language of the trust which did not prevent the property from passing to the heirs or devisees of a deceased remainderman. Because the Commissioner bore the burden of proof and failed to demonstrate the existence of a reversionary interest, the court sided with the petitioners.

Practical Implications

This case illustrates the importance of clear and unambiguous language in trust instruments, especially concerning survivorship requirements for remaindermen. For trusts created before the 1949 amendments to the tax code, this case reinforces that the Commissioner bears the burden of proving the existence of a reversionary interest and highlights that a failure to explicitly require survival of the final remaindermen can prevent the inclusion of trust property in the grantor's gross estate. Even today, the case provides insight into how courts interpret trust documents and allocate the burden of proof in estate tax disputes, and the need to carefully draft trust provisions to clearly express the grantor's intent regarding the disposition of trust property in various contingencies.