17 T.C. 409 (1951)

When a trustee's power to distribute trust income or corpus is governed by an ascertainable standard (like health, education, or support), the trust assets are not included in the grantor's gross estate for federal estate tax purposes, even if the grantor is a trustee.

Summary

Robert W. Wier and his wife created trusts for their daughters, with Wier as a co-trustee. The IRS sought to include the trust assets in Wier's gross estate, arguing the trusts were created in contemplation of death, and that Wier retained the right to designate who enjoys the property. The Tax Court held that the transfers to the trusts were not made in contemplation of death, and the trustee's powers were limited by an ascertainable standard, preventing inclusion in the gross estate. The court also found a gift of stock to the daughters was not made in contemplation of death, and a transfer of a homestead to Wier's wife was a completed gift and not includable in the gross estate.

Facts

Robert W. Wier died in 1945. In 1935, he and his wife established two trusts, one for each of their daughters. The trusts were funded with gifts from Wier and his wife. The trust instruments directed the trustees to use income and corpus for the "education, maintenance and support" of the daughters, "in the manner appropriate to her station in life." Wier was a co-trustee and never made distributions from the trusts. Wier also gifted Humble Oil stock to his daughters in 1943. In 1931, Wier conveyed his interest in the family homestead to his wife.

Procedural History

The IRS determined a deficiency in Wier's estate tax, including the value of the trusts, the Humble Oil stock, and the homestead in his gross estate. The Estate challenged the deficiency in the Tax Court.

Issue(s)

1. Whether the assets of the trusts are includable in Wier's gross estate under Section 2036 or 2038 of the Internal Revenue Code (formerly Section 811 of the 1939 Code)?

2. Whether the gift of Humble Oil stock was made in contemplation of death and therefore includable in the gross estate?

3. Whether the value of Wier's former interest in the homestead, gifted to his wife, is includable in his gross estate?

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Holding

1. No, because the trustee's power to distribute funds was limited by an ascertainable standard, meaning Wier did not retain the right to designate who should enjoy the property.

2. No, because the gifts of stock were motivated by life-related purposes and not made in contemplation of death.

3. No, because the transfer of the homestead to Wier's wife was a completed gift, and Wier retained no interest in the property.

Court's Reasoning

The court reasoned that the trusts were not created in contemplation of death, given Wier's good health and active life. Regarding the trusts, the critical issue was whether Wier, as trustee, retained the right to designate who should enjoy the trust property. The court emphasized that the trust instrument limited the trustees' discretion to distributions for the daughters' "education, maintenance and support" which constituted an ascertainable standard. This standard was enforceable by a court of equity, making the trustees' actions ministerial rather than discretionary. The court distinguished this case from others where the trustee had broad discretion. Citing *Jennings v. Smith, 161 F.2d 74*, the court found the restrictions on the trustees were akin to an external standard that a court could enforce. Regarding the Humble Oil stock, the court found the gifts were motivated by a desire to provide the daughters with business experience, a life-related motive. The court noted, "The evidence concerning the condition of decedent's health, his activities, the size of the gifts, and decedent's motives was overwhelming to the effect that these gifts were made from motives of life and not in 'contemplation of death'." As for the homestead, Wier had transferred his interest to his wife with no strings attached, relinquishing all control. The court cited Texas law confirming that a deed from husband to wife vests the homestead interest solely in the wife.

Practical Implications

This case clarifies the importance of ascertainable standards in trust instruments for estate tax purposes. It provides a roadmap for drafting trusts that avoid inclusion in the grantor's gross estate. Attorneys must carefully draft trust provisions to ensure that any powers retained by the grantor-trustee are clearly limited by standards related to health, education, maintenance, or support. This case emphasizes that vague or subjective standards (like "best interest") will likely result in inclusion. Later cases have continued to apply this principle, focusing on the specific language of the trust instrument to determine whether an ascertainable standard exists. This case also serves as a reminder that gifts must be evaluated for potential inclusion in the gross estate based on the donor's motivations at the time of the gift.

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