17 T.C. 495 (1951)

For estate tax purposes, a transfer of property is included in the gross estate unless it constitutes a bona fide sale for adequate and full consideration in money or money's worth, meaning the transferor receives equivalent monetary value in return, ensuring no depletion of the estate without taxation.

Summary

The Tax Court addressed whether the value of survivorship annuity contracts should be included in the decedent's gross estate for estate tax purposes. The decedent had transferred interests in these contracts to Mrs. Ray in exchange for her relinquishment of a contingent interest in a life insurance trust. The court held that the transfer was not a bona fide sale for adequate consideration because the decedent did not receive equivalent monetary value; thus, the value of the annuity contracts was included in his gross estate. This case illustrates the stringent requirements for avoiding estate tax on transferred property.

Facts

John M. Goetchius (the decedent) established a life insurance trust in 1935, granting Mrs. Eleanor Ray a contingent interest in the trust income after his death. Later, in 1938, the decedent acquired 24 single-premium survivorship annuity contracts, naming himself as the primary annuitant and Mrs. Ray as the survivor annuitant. To ensure Mrs. Ray received $1,000 per month, the annuity contracts were structured to pay out throughout the year. In exchange for these annuity interests, Mrs. Ray relinquished her contingent income interest in the life insurance trust to the decedent's brother, Morgan Goetchius. The IRS sought to include the value of these annuity contracts in Goetchius's estate.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The executor of Goetchius's estate, James P. Mimnaugh, challenged the deficiency, arguing that the transfer of interests in the annuity contracts was a bona fide sale for adequate consideration, thus exempting it from estate tax. The case was brought before the United States Tax Court.

Issue(s)

Whether the decedent's transfer of survivor interests in the annuity contracts to Mrs. Ray constituted a bona fide sale for adequate and full consideration in money or money's worth, thereby exempting the value of the annuity contracts from inclusion in the decedent's gross estate under Section 811(c)(1) of the Internal Revenue Code.

Holding

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No, because the decedent did not receive adequate and full consideration in money or money's worth for the transfer of interests in the survivorship annuity contracts. Mrs. Ray's relinquishment of her contingent interest in the life insurance trust did not provide the decedent with equivalent monetary value; thus, the value of the annuity contracts is includible in the gross estate.

Court's Reasoning

The court emphasized that to qualify for the exemption under Section 811(c)(1), a transfer must be a bona fide sale for adequate and full consideration. This means the transferor must receive equivalent monetary value in return, ensuring no depletion of the estate without taxation. The court relied on *Commissioner v. Wemyss, 324 U.S. 303 (1945)*, which clarified that the term "consideration" in estate and gift tax provisions is not the same as common-law contractual consideration. The court found that Mrs. Ray's relinquishment of her contingent interest in the life insurance trust did not provide the decedent with money's worth equivalent to the value of the survivorship interests in the annuity contracts. The court noted that Goetchius was essentially substituting one asset (annuity contracts) for another (life insurance trust income) to fulfill his testamentary intentions toward Mrs. Ray, indicating a testamentary disposition rather than a bona fide sale. As the court stated, the exemption applies only

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