17 T.C. 1244 (1952)

r
r

An employee receives taxable income when an employer transfers ownership of an annuity contract to them, even if the employer originally purchased the contract in a prior year.

r
r

Summary

r

Chrysler Corporation purchased an annuity contract on Morse's life in 1941 to provide him with retirement income, but retained all rights to the policy. In 1943, after Morse retired, Chrysler transferred the policy to him. The Tax Court held that Morse was taxable in 1943 on the value of the annuity contract at the time of transfer. The court reasoned that the employer's contribution to the annuity occurred when the rights were transferred to the employee, not when the policy was initially purchased. This case clarifies when an employee receives taxable income from an employer-provided annuity.

r
r

Facts

r

r
1. In 1941, Chrysler Corporation sought to provide retirement income for key employees ineligible for its pension plan, including Elliott Morse.r
2. Chrysler purchased a single-premium annuity contract on Morse's life, retaining all rights, benefits, and privileges under the contract.r
3. Chrysler paid $37,645.25 for the annuity contract on September 9, 1941.r
4. Morse retired on December 31, 1942.r
5. In January 1943, Chrysler endorsed the annuity contract to Morse, granting him the rights to receive monthly payments.r
6. Morse received $3,000 in annuity payments during 1943.r

r
r

Procedural History

© 2025 SCOTUSreports.com. All rights reserved.

r

r
1. The Commissioner of Internal Revenue determined deficiencies in Morse’s income tax for 1941 and 1943.r
2. Morse petitioned the Tax Court for a redetermination of the deficiencies.r
3. The Commissioner conceded no deficiency for 1941.r
4. The Tax Court ruled against Morse regarding the 1943 deficiency, holding the value of the annuity taxable in that year.r

r
r

Issue(s)

r

r
1. Whether the transfer of an annuity contract from an employer to an employee constitutes taxable income to the employee in the year of transfer, when the employer purchased the contract in a prior year but retained all rights until the transfer.r
2. If the transfer is taxable, what is the proper method for determining the value of the annuity contract for income tax purposes.r

r
r

Holding

r

r
1. Yes, because the employer’s contribution for the annuity contract occurred when the rights were transferred to the employee, not when the policy was initially purchased.r
2. The value of the policy at the time of transfer less any amount the employer recovered.r

r
r

Court’s Reasoning

r

r

© 2025 SCOTUSreports.com. All rights reserved.

1. The court reasoned that Morse had no rights or economic benefit from the annuity contract until 1943 when Chrysler transferred the policy to him. Prior to that, Chrysler owned the policy and collected the payments.r
2. The court rejected Morse’s argument that section 22 (b) (2) (B) of the Internal Revenue Code exempted the value of the policy from taxable income. The court interpreted this section to mean that the employer’s contribution occurs when the employee receives a benefit, which was in 1943.r
3. The court distinguished the case from situations where the employer’s contribution is made under a qualified plan. Here, the contribution was deemed to have occurred in 1943 when the employer relinquished control of the policy.r
4. The court determined the taxable amount to be the cost of the policy to the employer in 1941, less the amount the employer had recovered in the interim.r
5. The dissenting opinions argued that the majority’s decision went beyond the permissible limit of <span normalizedcite="26 U.S.C. 22 (a)

© 2025 SCOTUSreports.com. All rights reserved.