18 T.C. 414 (1952)

Interest on U.S. Series G savings bonds, payable semiannually, is not includible in a decedent's gross estate as accrued interest if death occurs between interest payment dates because the right to such interest does not exist at the time of death.

Summary

The Tax Court addressed whether interest accrued on U.S. Series G savings bonds between the last interest payment date and the date of the decedent's death should be included in the gross estate for estate tax purposes. The court held that because interest on these bonds is payable only at the end of six-month periods and no interest is paid upon redemption between these dates, no amount should be included in the gross estate as accrued interest. The right to receive the interest did not exist at the time of death, and the estate could redeem the bonds at par without receiving any accrued interest.

Facts

Willis L. King, Jr., died on October 14, 1946. At the time of his death, he owned U.S. Series G savings bonds with a face value of $325,000. These bonds paid interest semiannually. The executor of King's estate included the principal amount of the bonds in the estate tax return, but did not include any amount for interest accrued between the last interest payment date and the date of death. The Commissioner of Internal Revenue determined a deficiency in estate tax, arguing that the accrued interest should be included in the gross estate.

Procedural History

The Commissioner determined a deficiency in the estate tax. The executor of the estate petitioned the Tax Court for a redetermination of the deficiency. The Tax Court reviewed the Commissioner's determination regarding the inclusion of accrued interest on the bonds.

Issue(s)

Whether the interest on United States savings bonds, Series G, computed for the period between the last interest payment date before the date of death and the date of death, is includible in the gross estate under section 811 of the Internal Revenue Code.

Holding

No, because at the date of death, between interest payment dates, there was no right to such interest, and in order for the right to interest ever to come into existence, the bond had to be held until the next interest payment date.

Court’s Reasoning

The court reasoned that Section 811 of the Code requires including the value of property to the extent of the decedent’s interest at the time of death. However, the court emphasized that the federal estate tax is an excise tax on the transfer of an estate upon death, taxing the interest that ceased by reason of death. In this case, the decedent’s interest in the principal ceased, but no right to interest had accrued at the time of death because the bonds could be redeemed at par without any interest payment between interest dates. The court distinguished this from situations involving accrued interest or rents, where a right to receive existed at the time of death. The court stated, “At that date, the decedent had no right to any interest on the bonds and no interest thereon passed to others by reason of his death.” Citing Ithaca Trust Co. v. United States, <span normalizedcite="279 U.S. 151“>279 U.S. 151, the court noted that “The estate so far as may be is settled as of the date of the testator’s death.”

Practical Implications

This decision clarifies that the determination of what constitutes property includible in a gross estate depends on whether the decedent had a legally enforceable right to that property at the time of death. For estate planning, this case highlights the importance of understanding the terms of financial instruments, such as savings bonds, and how those terms affect estate tax liabilities. It demonstrates that the mere possibility of receiving income in the future is not sufficient to include that potential income in the gross estate if the right to receive it did not exist at the time of death. Later cases would need to consider similar conditions attached to other assets when determining estate tax liabilities.

