19 T.C. 1068 (1953)

Proceeds from a life insurance policy are not includible in an employee's gross estate for estate tax purposes when the employer owns the policy, pays all premiums, is the sole beneficiary, and the employee possesses no incidents of ownership, even if the employer intends to pay a portion of the proceeds to a family member of the employee.

Summary

The Tax Court held that $5,000 paid by the H.H. Robertson Company to the daughter of the deceased employee, John C. Morrow, was not part of Morrow's gross estate for estate tax purposes. Robertson owned a life insurance policy on Morrow, paid all premiums, and was the sole beneficiary. Although Robertson informed Morrow it intended to pay $5,000 of the proceeds to a designated family member upon his death, Morrow possessed no ownership rights in the policy. The court reasoned that because Morrow had no incidents of ownership, the $5,000 was not subject to estate tax under Section 811(g)(2) of the Internal Revenue Code.

Facts

John C. Morrow was employed by H.H. Robertson Company from 1919 until his death in 1947. Robertson purchased a life insurance policy on Morrow's life in 1926, with the company as the sole beneficiary and owner. Morrow executed the application at Robertson's request, as did other key employees. Robertson paid all premiums. The policy gave Robertson the exclusive right to exercise options and receive payments without Morrow's consent. Robertson informed Morrow that it intended to pay $5,000 of the $10,000 proceeds to a family member designated by Morrow, and Morrow designated his wife, and later, after her death, his daughter Mildred. Robertson paid $5,000 to Mildred after Morrow's death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Morrow's estate tax, including the $5,000 paid to Morrow's daughter as part of the gross estate. The estate petitioned the Tax Court, arguing the amount should not be included. The Tax Court ruled in favor of the estate.

Issue(s)

Whether $5,000 paid by the decedent's employer to the decedent's daughter from the proceeds of a life insurance policy owned and paid for by the employer is includible in the decedent's gross estate for estate tax purposes under Section 811(g)(2) or 811(a) of the Internal Revenue Code.

Holding

No, because the decedent possessed none of the incidents of ownership in the insurance policy at the time of his death, and the employer’s payment to the daughter was not insurance proceeds received by a beneficiary under a policy on the decedent’s life. Further, the decedent did not indirectly pay the premiums, nor did he possess a property right worth $5,000 includible under Section 811(a).

Court’s Reasoning

The court reasoned that the decedent had no incidents of ownership in the policy; Robertson held all such incidents. The entire proceeds were payable to and paid to Robertson. The employer’s letter stating its intention to pay a portion to the decedent’s family did not create a beneficiary designation under the policy; the daughter received the money from Robertson, not as insurance proceeds. Section 811(g) applies only to proceeds of life insurance. Furthermore, the court found no indirect payment of premiums by the decedent. The court noted, “Whatever rights, if any, the decedent had in the insurance were so restricted and uncertain, and the benefits and rights of the employer were so great, that the payment of the premiums by Robertson did not represent income taxable to the decedent.” The court also rejected the Commissioner’s argument under Section 811(a), finding that the decedent did not possess a property right worth $5,000 includible in his gross estate.

Practical Implications

This case clarifies that life insurance policies owned and controlled by an employer, even if intended to benefit the employee’s family, are not automatically includible in the employee’s estate. The critical factor is the absence of incidents of ownership by the employee. This ruling informs tax planning strategies where employers seek to provide benefits to employees’ families through life insurance without increasing the employee’s estate tax burden. Later cases distinguish this ruling by focusing on whether the employee retained any control or incidents of ownership, however minor. The key takeaway is the bright-line rule regarding incidents of ownership: absence thereof results in exclusion from the gross estate.

