20 T.C. 420 (1953)

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A transfer of property between spouses incident to a divorce is not a taxable gift if the transfer is made for adequate consideration, such as the promise to execute a property settlement agreement.

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Summary

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Ruby Grigg transferred property to her husband, Orchard, as part of a divorce settlement. The IRS determined that this transfer was a taxable gift. The Tax Court held that the transfer was not a gift because it was made for adequate consideration: Orchard's promise to execute a property settlement agreement satisfactory to Grigg. The court emphasized that the transfer was part of an arm's-length transaction between parties with adverse interests and was crucial to finalizing the divorce and property settlement.

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Facts

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Ruby Grigg and Charles Burton Orchard married in 1931 and had a child in 1943. In 1943-1945, Orchard gifted Grigg approximately half of his net worth. In 1945, after Orchard returned from military service, Grigg sought a divorce. Orchard insisted that Grigg return the property he had gifted her as a condition for a property settlement. On October 14, 1946, Grigg signed a "Bill of Sale and Deed of Gift" to convey the property back to Orchard, reciting only nominal consideration. However, she only did so after Orchard's attorney assured her that a mutually agreeable property settlement would be reached.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Grigg's gift tax for 1946. Grigg petitioned the Tax Court, arguing that the transfer was not a gift but part of a divorce settlement for adequate consideration. The Tax Court ruled in favor of Grigg, finding no gift tax deficiency. A divorce decree was subsequently entered on October 29, 1946, approving the property settlement agreement.

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Issue(s)

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Whether the transfer of property by Grigg to Orchard, her husband, constituted a taxable gift under Section 1002 of the Internal Revenue Code.

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Holding

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No, because the transfer was made for adequate consideration in the form of Orchard's promise to execute a property settlement agreement agreeable to Grigg.

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Court's Reasoning

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The court reasoned that the "Bill of Sale and Deed of Gift" was part of a larger negotiation to effect a divorce and property settlement. While Section 1002 of the Code states that transfers for less than adequate consideration are deemed gifts, and Section 812(b) specifies that relinquishment of marital rights is not adequate consideration, the court distinguished the situation. Here, Grigg transferred the property in exchange for Orchard's promise to execute a property settlement agreement satisfactory to her. The court emphasized that the transaction was an arm's-length negotiation between parties with adverse interests. The court stated, "Under such circumstances, we conclude that the Bill of Sale and Deed of Gift constituted an agreement to transfer property by petitioner to Orchard in consideration of Orchard's promise to execute a property settlement agreement in favor of and agreeable to petitioner, and that such consideration constitutes an adequate and full consideration in money or money's worth."

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