20 T.C. 487 (1953)

The reciprocal trust doctrine applies when trusts are interrelated, and the arrangement leaves the settlors in essentially the same economic position as if they had created trusts naming themselves as beneficiaries.

Summary

The Tax Court addressed whether trusts established by a husband and wife were reciprocal, thus requiring the inclusion of the husband's trust assets in the wife's estate. The court found that the trusts were not reciprocal because they lacked interdependence and a *quid pro quo* of substantially similar beneficial rights or control. The court emphasized the importance of examining the intent and motivations behind the trusts' creation. The court also allowed a deduction for the special guardian's fee as an administrative expense.

Facts

Louise Ruxton (decedent) and her husband, Philip Ruxton, created trusts on the same day. Philip was concerned about potential liability from his involvement with a bank. Louise created a trust naming Philip as the primary income beneficiary for life, with their daughters as secondary beneficiaries. Philip created two trusts, one for each daughter, with Louise as a contingent income beneficiary if she survived the daughters. The trusts were executed on the same day, but after separate consultations with their attorney. Louise paid gift tax on her trust. Philip also paid gift tax on his trusts.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Louise's estate tax, including the value of Philip's trusts in her gross estate, arguing the reciprocal trust doctrine applied. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether the trusts created by Louise and Philip Ruxton were reciprocal trusts, requiring inclusion of the husband's trust assets in the wife's estate under Section 811(c) of the Internal Revenue Code.
2. Whether the estate is entitled to a deduction for the fee of a special guardian appointed to represent minor beneficiaries.

Holding

1. No, because the trusts were not interdependent and lacked a *quid pro quo* of substantially the same degree of beneficial right or control.
2. Yes, because the fee is a reasonable and necessary administrative expense.

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Court’s Reasoning

The court stated that the reciprocal trust doctrine, a concept of the courts rather than a statutory provision, should only be applied when clearly warranted by the facts. The court emphasized that the trusts in this case lacked interdependence. Louise acted independently in creating her trust, intending primarily to benefit her husband, and the trusts were not created in consideration of each other. The court distinguished this case from *Lehman v. Commissioner* and similar cases where the uncrossing of the trusts left each grantor with substantially the same beneficial rights. Here, the benefits were unequal, with Philip receiving a primary life estate and Louise only a contingent one. The court noted that motives of the parties has a bearing on their intentions. As to the deduction, the court found the guardian’s fee to be a reasonable and necessary administrative expense under Section 812(b)(2) of the Code.

Practical Implications

This case highlights the importance of examining the intent and economic realities behind trusts when determining whether the reciprocal trust doctrine applies. It demonstrates that trusts created around the same time are not automatically considered reciprocal. Courts will analyze whether the settlors acted independently, whether the trusts provided equivalent economic benefits, and the motivations behind the trusts’ creation. It emphasizes that the

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