Estate of Lillie G. Hutchinson, Deceased, Florence E. Hutchinson, Trustee and Transferee, Petitioner, v. Commissioner of Internal Revenue, Respondent. Estate of Lillie G. Hutchinson, Deceased, The First National Bank of Chicago, Trustee and Transferee, Petitioner, v. Commissioner of Internal Revenue, Respondent. Estate of Lillie G. Hutchinson, Deceased, Alfred H. Hutchinson, Trustee and Transferee, Petitioner, v. Commissioner of Internal Revenue, Respondent. 20 T.C. 749 (1953)

Life insurance policies assigned by the decedent and cashed in by the assignees before the decedent's death are not includible in the decedent's gross estate for estate tax purposes, even if the policies were part of an insurance-annuity combination.

Summary

The Commissioner of Internal Revenue determined a deficiency in estate tax against the Estate of Lillie G. Hutchinson. The primary issue was whether certain transfers of property, including life insurance policies and trusts established by the decedent, were made in contemplation of death under section 811(c) of the Internal Revenue Code. The court held that the transfers were not made in contemplation of death. Furthermore, the court addressed the taxability of the life insurance policies. The court ruled that since the assigned life insurance policies were cashed in before the decedent's death, their value could not be included in the estate because no interest of any kind was possessed by decedent at her death.

Facts

Lillie G. Hutchinson died in 1946. In 1935, approximately ten years before her death, she assigned two life insurance policies, with a total face value of $200,000, to her two sons. These policies were single-premium policies taken out in conjunction with annuity policies. The sons later cashed in these life insurance policies. Additionally, in 1935, she transferred securities worth $105,691.39 to two trusts, one for each son and their families. The Commissioner contended that these transfers were made in contemplation of death, and, alternatively, the insurance transfers were intended to take effect in possession or enjoyment at death. The Tax Court found that the transfers were not made in contemplation of death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in estate tax. The estate challenged this determination in the United States Tax Court. The Tax Court ruled in favor of the estate, finding that the transfers were not made in contemplation of death and that the value of the life insurance policies, which had been cashed in before the decedent's death, was not includible in the estate.

Issue(s)

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1. Whether the transfers of the insurance policies were made in contemplation of death?

2. Whether the value of the life insurance policies, which were assigned by the decedent and cashed in before her death, should be included in the decedent's gross estate?

Holding

1. No, because the transfers were motivated by lifetime concerns, specifically the financial difficulties of her sons and their families.

2. No, because the life insurance policies were cashed in and no longer existed at the time of the decedent's death, and therefore the estate had no interest in the policies at the time of death.

Court's Reasoning

The court first addressed the question of whether the transfers were made in contemplation of death. The court considered factors such as the decedent's age, health, and activities. The court found that the transfers were motivated by concerns about the financial well-being of her sons. The court relied on evidence that the decedent was in good health, active, and engaged in various activities, including travel and social events. The court cited *United States v. Wells*, to highlight the importance of determining the decedent's motive for making the transfers: "if the transfer related to purposes of life, such as the recognition of special needs or exigencies of her children, rather than to the distribution of property in anticipation of death, such gift would not be one made in contemplation of death."

The court then addressed the taxability of the insurance policies. The court noted that the policies had been cashed in by the assignees before the decedent's death. The court distinguished this case from other cases involving insurance-annuity combinations where the policies were still in effect at the time of the insured's death. The court emphasized that the decedent had no interest in the policies at the time of her death, as the cash surrender value had already been paid out. The court noted that the policies were surrendered and canceled before the decedent's death. The court cited statements in *Helvering v. Le Gierse*, where the Supreme Court noted that an insurance policy could have been assigned or surrendered without the annuity and the "essential relation between the two parties would be different from what it is here." The court determined the cancellation and surrender of the policies distinguished this case from the facts of the other cases.

Practical Implications

This case clarifies that the value of life insurance policies, even those purchased in conjunction with annuity contracts, is not includible in a decedent's gross estate if the policies have been cashed in by the assignees prior to the decedent's death. This

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decision provides a useful guide for estate planning. Practitioners should advise clients about the importance of the timing of actions concerning life insurance policies, especially when combined with annuity contracts, to minimize estate tax liability. The distinction made by the court regarding the exercise of the power to cash in the policies is critical; if the power is exercised before death, the policies are no longer part of the estate. This case highlights the significance of lifetime transfers and the importance of considering the transferor's motives and activities when determining whether a transfer was made in contemplation of death.

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