22 T.C. 641 (1954)

A marital deduction for life insurance proceeds is disallowed if the decedent's surviving spouse's interest in those proceeds is terminable, meaning that upon the spouse's death, the remaining proceeds pass to other beneficiaries designated by the decedent.

Summary

The Estate of Thomas J. White challenged the Commissioner of Internal Revenue's denial of a marital deduction for life insurance proceeds. The decedent had designated his wife, Virginia, as the primary beneficiary of several life insurance policies. However, the settlement agreements specified that if Virginia died before all installments were paid, the remaining proceeds would go to the decedent's children. The Tax Court held that because Virginia's interest in the proceeds was terminable (ending upon her death with the remainder passing to others), the marital deduction was not allowed under the Internal Revenue Code.

Facts

Thomas J. White died in 1948, survived by his wife, Virginia, and children. The estate tax return included twelve life insurance policies from Northwestern Mutual Life Insurance Company, with Virginia as the beneficiary. The decedent had executed agreements in 1936 and 1941 designating Virginia as beneficiary, but also stipulating that upon her death before all installments were paid, the remaining proceeds would pass to his children. The Commissioner included the value of these policies in the gross estate and disallowed the marital deduction based on the nature of the settlement agreements, as the interest passing to Virginia was deemed terminable.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax, disallowing the marital deduction. The Estate petitioned the United States Tax Court. The Tax Court adopted the stipulated facts and issued its ruling.

Issue(s)

Whether the estate is entitled to a marital deduction for the value of life insurance proceeds where the surviving spouse's interest in the proceeds is terminable upon her death, with the remaining proceeds passing to other beneficiaries.

Holding

No, because the surviving spouse's interest in the insurance proceeds was a terminable interest, as the remaining proceeds would pass to the decedent's children upon her death.

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Court’s Reasoning

The court applied Internal Revenue Code Section 812(e)(1)(B), which disallows a marital deduction if the interest passing to the surviving spouse is a

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