23 T.C. 911 (1955)

Life insurance proceeds are includible in a decedent's gross estate, proportionally, based on the decedent's premium payments, even if the decedent did not possess incidents of ownership but was obligated to maintain the policies.

Summary

The Estate of Chester H. Bowers challenged the Commissioner's determination that life insurance proceeds should be included in Bowers' gross estate. Bowers, as part of a divorce settlement, was obligated to maintain life insurance policies with his former wife as beneficiary. The court determined that Bowers did not possess incidents of ownership in the policies but had paid premiums. The court held that the proceeds were includible in the gross estate proportionally to the premiums paid by Bowers. The court also found that the obligation to maintain the insurance was an indebtedness, but it was not deductible because it was not contracted for "full consideration in money or money's worth" as defined in the tax code. This case clarifies the interplay of premium payments, incidents of ownership, and obligations arising from property settlements concerning the inclusion of life insurance proceeds in the gross estate for tax purposes.

Facts

Chester H. Bowers died in 1949. Bowers and Esther H. Bowers divorced in 1932. A property settlement agreement required Bowers to maintain $50,000 of life insurance with Esther as beneficiary. Bowers paid all premiums after the agreement. The divorce decree incorporated the property settlement agreement. At Bowers' death, the insurance proceeds were paid to Esther. The Commissioner determined the proceeds were includible in Bowers' gross estate.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The executor of the estate contested the determination in the U.S. Tax Court. The Tax Court reviewed the case based on stipulated facts and issued a decision.

Issue(s)

1. Whether the proceeds of the life insurance policies were includible in the decedent's gross estate under section 811(g)(2)(B) of the Internal Revenue Code of 1939 (IRC), due to the decedent's possession of "incidents of ownership".

2. Whether, if the proceeds were includible under section 811(g)(2)(A) of the IRC due to premium payments, the estate was entitled to an offsetting deduction under section 812(b) of the IRC for the obligation to maintain the insurance policies.

Holding

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1. No, because the decedent did not possess any incidents of ownership over the policies at the time of his death.

2. Yes, but only a portion of the proceeds were includable, and the estate was not entitled to an offsetting deduction under section 812(b) because the obligation was not contracted for adequate consideration.

Court’s Reasoning

The court first determined that Bowers did not possess incidents of ownership in the policies because the divorce settlement agreement effectively transferred control. The court cited California law, which held that the agreement controlled the disposition of the policy proceeds. The court found that because Bowers had paid the premiums on the policies, the proceeds were includible in the gross estate under section 811(g)(2)(A) of the IRC. The court then addressed whether the estate was entitled to a deduction for the obligation to maintain the policies. The court reasoned that the obligation was an

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