

## **25 T.C. 31 (1955)**

When life insurance proceeds, pledged as collateral for a decedent's debt, are paid to the beneficiary, the full amount of the proceeds qualifies for the marital deduction if the estate is solvent and pays the debt.

### **Summary**

The Estate of D. Byrd Gwinn challenged the Commissioner of Internal Revenue's determination regarding the valuation of Gwinn's estate for tax purposes. The primary issue involved the marital deduction and whether the proceeds of a life insurance policy, pledged as collateral for a bank loan, qualified for the deduction. The Tax Court held that the full amount of the insurance proceeds qualified for the marital deduction because the estate paid the debt and the beneficiary received the full policy proceeds. The court distinguished prior cases where the debt could only be paid from the pledged property. The decision emphasizes that the nature of the debt and the solvency of the estate are critical factors in determining the marital deduction when life insurance policies are encumbered.

### **Facts**

D. Byrd Gwinn died on January 15, 1951. At the time of his death, Gwinn owned 360 shares of common stock in Gwinn Bros. & Co. and had a life insurance policy with a face value of \$10,000, with his wife, Caroline A. Gwinn, as the primary beneficiary. This policy, along with other policies, was pledged as collateral for a \$20,000 debt to a bank. After Gwinn's death, the estate paid the debt to the bank, and Caroline A. Gwinn received the full proceeds of the life insurance policy. The Commissioner of Internal Revenue increased the value of the stock and questioned whether the life insurance proceeds qualified for the marital deduction.

### **Procedural History**

The Commissioner of Internal Revenue determined that the value of the stock in the estate tax return should be increased and that the life insurance proceeds, due to the pledge, did not qualify for the marital deduction. The estate contested these determinations in the Tax Court.

### **Issue(s)**

1. Whether the Commissioner correctly valued the shares of common stock in Gwinn Bros. & Co. owned by the decedent?
2. Whether the proceeds of the life insurance policy pledged as collateral for a debt qualified for the marital deduction under Section 812(e) of the Internal Revenue Code of 1939?

### **Holding**

1. No, because the court found the fair market value of the stock to be \$60 per share.
2. Yes, because the estate paid the debt, and the beneficiary received the full proceeds of the insurance policy.

### **Court's Reasoning**

The court first addressed the valuation of the stock, determining its fair market value based on the presented facts. The court then turned to the more complex issue of the marital deduction and the insurance policy. The court agreed with the Commissioner that the pledge constituted an