25 T.C. 654 (1955)

When a husband and wife transfer property held as tenants by the entirety to themselves individually in equal shares, only one-half of the value is includible in the deceased husband's estate, even if the transfer was made in contemplation of death.

Summary

In *Estate of Carnall v. Commissioner*, the U.S. Tax Court addressed whether the entire value of securities transferred by a husband and wife from a tenancy by the entirety to themselves individually in equal shares was includible in the deceased husband's estate. The court held that only one-half of the value should be included because the husband's interest in the entirety property at the time of the transfer was one-half. This aligns with the principle that the includible amount in the estate is limited to the decedent's interest in the transferred property. The transfer was made in contemplation of the husband's death.

Facts

Edward Carnall and his wife, Emily, owned securities as tenants by the entirety, purchased with Edward's funds. They reported income, gains, and losses from these securities equally on their individual tax returns. In 1945, they transferred these securities to themselves individually in equal shares. The transfer was motivated by advice to avoid estate tax on the total value of the securities. Edward, who had health issues, died in 1947. The Commissioner of Internal Revenue included the entire value of the securities in his estate. A gift tax return was filed and a tax paid in 1945.

Procedural History

The case originated when the Commissioner determined a deficiency in estate tax. The executors contested the inclusion of the entire value of the securities. The U.S. Tax Court reviewed the case based on stipulated facts, focusing on the legal implications of the property transfer made by the Carnalls.

Issue(s)

Whether the entire value of securities transferred by the decedent and his wife from a tenancy by the entirety to themselves individually in equal shares is includible in the decedent's estate under Section 811(c) of the 1939 Internal Revenue Code, or only one-half?

Holding

No, because the husband's interest in the entirety property at the time of the transfer was one-half, and since the transfer placed one-half of the entirety property in him outright, no additional share would be includible in his estate under section

© 2025 SCOTUSreports.com. All rights reserved.

811(c).

Court’s Reasoning

The court relied on the principle that the amount includible in the gross estate under Section 811(c) is limited to the decedent’s interest in the transferred property. The court cited the precedent in *Estate of A. Carl Borner*, which held that when such a transfer of entirety property was made to a trust, the husband’s interest was one-half. The court reasoned that the same principle applies when the transfer is to each other, not to a trust. “In all cases under this statute the first inquiry is as to the extent of decedent’s interest in the property transferred.” The court concluded the transfer didn’t increase the husband’s interest in the property, therefore only one-half was includible.

Practical Implications

This case highlights that when property is transferred from a tenancy by the entirety to individual ownership, estate tax implications are based on the decedent’s existing interest in the property at the time of transfer. This understanding is crucial for estate planning, specifically in how attorneys advise clients regarding asset ownership. The decision stresses the importance of understanding state property laws (tenancy by entirety) and federal tax rules (Section 811(c)). It is also important for practitioners to consider whether similar holdings regarding tenancies by the entirety, and interests therein, have been modified or changed since the 1955 ruling.

© 2025 SCOTUSreports.com. All rights reserved.