25 T.C. 697 (1956)

The value of a trust corpus is includible in a decedent's gross estate if the decedent retained the right to the income for a period that did not end before his death, but a transfer to a trust for the support of minor children is considered for adequate consideration.

Summary

The United States Tax Court addressed whether the value of a trust (Trust B), established by the decedent under a separation agreement, was includible in the gross estate under Section 811(c)(1)(B) of the 1939 Code. The income from the trust was used for the support of the decedent's wife and children. The court held that the trust corpus was includible in the decedent's gross estate because he retained the right to the income for a period that did not end before his death. However, the court found that the portion of the trust used for the support of the decedent's minor children was transferred for adequate consideration in money's worth and therefore, excluded that portion from the gross estate. The court distinguished between the support of the children (consideration) and the support of the wife (marital right), which is not consideration under the statute.

Facts

Robert Manning McKeon (decedent) and Margot McKeon were separated but not divorced. They entered a separation agreement where the decedent created Trust B. The income from Trust B was for the support of his wife and their two minor children. The agreement stated the wife relinquished all interest in the decedent's estate and accepted the trust provisions as full satisfaction of her right to claim support. The decedent died on May 13, 1948, and the executors filed an estate tax return. The Commissioner determined a deficiency in estate tax, leading to the petitioners claiming overpayment.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The estate contested this determination. The case proceeded to the United States Tax Court. The Tax Court addressed the issues related to the inclusion of the trust's value in the gross estate and the applicability of the exception for transfers for consideration.

Issue(s)

1. Whether the value of Trust B, created by the decedent, is includible in his gross estate under section 811 (c) (1) (B) of the 1939 Code.
2. Whether all or part of the value of the trust corpus should be excluded from the gross estate under section 811 (i) of the 1939 Code because the transfer was made for consideration.

© 2025 SCOTUSreports.com. All rights reserved.

3. If consideration existed, how to value the consideration.

Holding

1. Yes, the value of Trust B is includible in the decedent's gross estate under section 811(c)(1)(B) because the decedent retained the right to the income for a period that did not end before his death.
2. Yes, part of the value of the trust corpus, relating to the support of the children, is excluded from the gross estate.
3. The commuted value of the children's support was $63,736.80.

Court's Reasoning

The court applied Section 811(c)(1)(B) of the 1939 Code, which included in the gross estate any property transferred where the decedent retained the right to income for a period that did not end before his death. The court found that the decedent's interest in the trust income, used for his wife and children's support, met this condition because this obligation continued until death. The court rejected the argument that the statute's language should not be read literally, stating, "The language of the statute 'for any period which does not in fact end before his death' is clear and unambiguous." The court distinguished that the obligation to support the children provided consideration. The court cited D.G. McDonald Trust (19 T.C. 672) in its reasoning, which held that the release of a father's obligation to support his children constitutes consideration in money or money's worth. The court determined that the commuted value of the children's support should be excluded from the gross estate under section 811(i). However, the court held that the wife's relinquishment of her right to support was not consideration, citing section 812(b), which excludes "other marital rights in the decedent's property or estate" as consideration in money or money's worth.

Practical Implications

This case emphasizes the importance of carefully structuring trusts created in the context of separation agreements to avoid adverse estate tax consequences. The case clarifies that a decedent's continued obligation to support a spouse and minor children, satisfied through a trust, can lead to the inclusion of the trust's value in the gross estate. Estate planners must understand the distinction between consideration and marital rights, and how this affects the valuation of the gross estate. This case also highlights the importance of considering the value of the legal obligation to support minor children. If a trust is created to satisfy this obligation, the value of the trust corpus can be reduced by the value of that support obligation. Later cases will continue to reference this case when evaluating the tax treatment of transfers related to support obligations. Furthermore, this case emphasizes how the specifics of state law on support obligations are important when determining federal estate tax liability.

© 2025 SCOTUSreports.com. All rights reserved.