Estate of Mary Lois K. McIntosh, 19 T.C. 806 (1953)

When a settlor establishes a trust in their own benefit, but uses a nominal settlor to circumvent state law, the court will look at the substance of the transaction to determine the settlor for estate tax purposes. Also, releasing a power of appointment solely to avoid estate taxes is considered a transfer in contemplation of death, triggering estate tax inclusion.

Summary

The Estate of Mary Lois K. McIntosh addressed whether the value of property transferred in trust should be included in the decedent's estate for tax purposes. The court examined if the decedent was the true settlor of the trust, allowing her to revoke it under Missouri law and whether her relinquishment of a power of appointment was in contemplation of death. The court found the decedent to be the true settlor and held that the trust was revocable and that relinquishing the power of appointment was a transfer in contemplation of death. The decision highlights the importance of substance over form in tax law and how actions taken solely to avoid estate taxes can trigger estate tax liability.

Facts

Mary Lois K. McIntosh created a trust, naming a nominal settlor to circumvent Missouri law against self-settled spendthrift trusts. The property placed in the trust belonged solely to her. The trust provided that upon her death, the trust assets would go to whomever she designated in her will; otherwise, they would pass to her heirs under Missouri's laws of descent and distribution. In 1943, McIntosh relinquished her power of appointment to avoid estate taxes. The Commissioner of Internal Revenue sought to include the value of the trust property in her estate under sections related to revocable transfers and transfers in contemplation of death.

Procedural History

The case originated in the United States Tax Court. The Commissioner determined a deficiency in estate taxes, which the estate challenged. The Tax Court considered the nature of the trust, the decedent's true role as settlor, the revocability of the trust under Missouri law, and the intent behind the relinquishment of her power of appointment. The Tax Court ruled in favor of the Commissioner on both the revocability of the trust and the relinquishment of the power of appointment, and against the estate's claim for a larger deduction for support of the decedent's husband.

Issue(s)

1. Whether Mary Lois K. McIntosh was the true settlor of the trust, despite using a nominal settlor.

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2. Whether the trust was revocable by Mary Lois K. McIntosh under Missouri law.

3. Whether the relinquishment of Mary Lois K. McIntosh's power of appointment was made in contemplation of death.

Holding

1. Yes, because she provided the assets for the trust, and the nominal settlor was used to circumvent Missouri law.

2. Yes, because under Missouri law, a settlor who is the only beneficiary of a trust has the power to revoke it.

3. Yes, because the relinquishment of the power of appointment was motivated solely by a desire to avoid estate taxes.

Court's Reasoning

The court first addressed whether Mary Lois K. McIntosh was the true settlor of the trust. The court applied the principle of substance over form, recognizing that the nominal settlor was used to avoid Missouri law. Because McIntosh provided the assets and was the sole beneficiary, the court held that she was the real settlor. The court then examined the revocability of the trust under Missouri law, citing *Stephens v. Moore*, which held that if the settlor is also the sole beneficiary, then the trust is revocable. The court determined there was no difference between the facts here and *Stephens v. Moore*. Regarding the relinquishment of the power of appointment, the court found that the sole motive was tax avoidance, which, under precedent, constituted a transfer in contemplation of death. The court also considered and rejected the estate's claim for a larger deduction for the support of the decedent's husband.

"We therefore hold that decedent was the only beneficiary under the trust created in effect by her in 1929, and consequently she had the power to revoke the trust under Missouri law."

"We have previously held that a transfer motivated solely by a desire to avoid estate taxes was in contemplation of death."

Practical Implications

This case emphasizes that the courts will look beyond the formal structure of a transaction to its substance, especially in tax cases. It reinforces that creating trusts with nominal settlors, or attempting to avoid state law restrictions, will not necessarily shield assets from estate tax. Further, it establishes a clear rule: any action taken primarily to avoid estate taxes, such as relinquishing a power of appointment, will likely be considered a transfer in contemplation of death. Practitioners must advise clients on the implications of actions taken close to death

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and ensure that the client’s motives extend beyond pure tax avoidance. This also highlights the importance of estate planning documentation, including the client’s intent, to defend estate tax valuations.

Meta Description

Estate of Mary Lois K. McIntosh: The court ruled that in estate planning, the substance of transactions prevails over form, and actions taken purely for tax avoidance can trigger estate taxes.

Tags

Estate of Mary Lois K. McIntosh, Tax Court, 1953, Revocable Trust, Power of Appointment, Contemplation of Death, Estate Tax

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