Goldstein v. Commissioner of Internal Revenue, 26 T.C. 506 (1956)

Gifts of stock to a trust where the beneficiary's present enjoyment and access to the trust funds are contingent upon the discretionary actions of a corporation are considered gifts of future interests and do not qualify for the gift tax annual exclusion.

Summary

Petitioner Celia Goldstein gifted shares of stock in a family corporation to a trust established for the benefit of her children. The trust agreement stipulated that the corporation would determine annually whether to purchase shares of stock from the trust, with the proceeds to be distributed to the beneficiaries. The Tax Court held that these gifts of stock were gifts of future interests because the beneficiaries' present and immediate enjoyment of the gifted property was contingent upon the discretionary decision of the corporation to repurchase the stock. Consequently, the gifts did not qualify for the gift tax annual exclusion.

Facts

Celia Goldstein and her husband owned all the stock of Standard Plumbing Supply Co., Inc. In 1949, they created a trust for the benefit of three of their five children, funded with shares of the company's stock. The trust agreement allowed the corporation, at its discretion, to purchase up to $3,000 worth of stock annually from the trust while either settlor was alive. Proceeds from these sales were to be distributed to the trust beneficiaries. In 1950 and 1951, Celia Goldstein gifted additional shares of stock to this trust and claimed gift tax annual exclusions for these gifts.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Celia Goldstein's gift tax for 1950 and 1951, disallowing the annual exclusions claimed for the gifts to the trust. The Commissioner argued that the gifts were of future interests and therefore did not qualify for the exclusion. Goldstein petitioned the Tax Court to contest the Commissioner's determination.

Issue(s)

1. Whether the gifts of stock made by Petitioner to the trust in 1950 and 1951 for the benefit of her children were gifts of future interests in property within the meaning of Section 1003(b)(3) of the Internal Revenue Code of 1939, thus disqualifying them for the gift tax annual exclusion?

Holding

1. No. The Tax Court held that the gifts of stock to the trust in 1950 and 1951 were

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gifts of future interests because the beneficiaries' present enjoyment of the property was contingent upon the corporation's discretionary decision to purchase the stock.

Court's Reasoning

The court reasoned that a "future interest" is defined as "any interest or estate, whether vested or contingent, limited to commence in possession or enjoyment at a future date." Citing *Fondren v. Commissioner*, the court emphasized that a gift is considered a future interest if "whatever puts the barrier of a substantial period between the will of the beneficiary or donee presently to enjoy what has been given him and that enjoyment makes the gift one of a future interest." The trust agreement stipulated that the corporation, at its sole discretion, would determine whether and how much stock to purchase from the trust each year. The trustees' ability to distribute funds to the beneficiaries was entirely dependent on the corporation's decision to purchase stock. The court stated, "Clearly the trustees have no discretion to delay payment of proceeds received from the sale of trust stock. But the trustees are subject to the control of the corporation, for it and it alone has the power to determine whether or not the trust stock will be purchased and retired." Because the corporation's discretionary power created a barrier to the beneficiaries' present enjoyment of the gift, the court concluded that the gifts were future interests and thus not eligible for the gift tax annual exclusion. The court distinguished cases cited by the petitioner, noting that in those cases, no party had the discretion to postpone the enjoyment of the gift property.

Practical Implications

Goldstein v. Commissioner clarifies the application of the gift tax annual exclusion, particularly concerning gifts in trust. The case underscores that for a gift to qualify as a present interest, the beneficiary must have an immediate, unrestricted right to the use, possession, or enjoyment of the gifted property or its income. It highlights that if a third party, such as a corporation in this case, holds discretionary power that can delay or prevent the beneficiary's immediate access to and enjoyment of the gifted property, the gift is likely to be classified as a future interest, ineligible for the annual exclusion. This decision is crucial for estate planning attorneys when structuring trusts, especially those involving closely held businesses, to ensure that gifts intended to qualify for the annual exclusion are not deemed future interests due to contingencies controlled by third parties.

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