Beckman Trust v. Commissioner, 26 T.C. 1172 (1956)

When a grantor establishes a revocable trust and reserves the income for life and the power to revoke the trust with the consent of a non-adverse party, the basis of the property in the hands of the trust after the grantor's death is the fair market value at the date of the grantor's death, as if the trust instrument had been a will.

Summary

The United States Tax Court addressed whether the basis of stock sold by the Beckman Trust after the death of the grantor should be determined under Internal Revenue Code section 113(a)(2) or 113(a)(5). The grantor had created a trust, retaining the income for life and the right to revoke the trust with the consent of two named trustees. The court held that the trust fell under section 113(a)(5), meaning the basis of the stock should be the fair market value at the date of the grantor's death. The court reasoned that the grantor's retained control over the trust assets, including the power to revoke, meant the property should be treated as if it had been transferred by will, aligning with the purpose of section 113(a)(5) to treat such transfers as incomplete gifts until death.

Facts

In 1932, Hazel B. Beckman created a trust, transferring stock to the trust. The trust was to last for the lives of her daughters. Beckman reserved the income of the trust for her life. The trust instrument allowed Beckman to revoke the trust with the consent of her father during his lifetime, and after his death, with the consent of designated trustees. The trust was amended in 1943 to specify the trustees whose consent was required for revocation. Beckman died in 1947. In 1950, the trust sold a portion of the Wenonah stock and reported a capital gain, using the stock's value at the time of Beckman's death as the basis. The Commissioner determined the basis of the stock should be the same as in the grantor's hands, resulting in a larger taxable gain.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the trust's income tax for 1950, based on the Commissioner's calculation of the capital gain from the sale of stock. The Beckman Trust contested the deficiency in the U.S. Tax Court.

Issue(s)

1. Whether the basis of the stock sold by the Beckman Trust should be determined under Section 113(a)(5) of the Internal Revenue Code, based on the fair market value at the date of the grantor's death.

2. Whether the grantor's power to revoke the trust with the consent of trustees who did not have adverse interests satisfied the requirements of Section 113(a)(5).

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. Yes, because the trust met the requirements of Section 113(a)(5), as the grantor reserved the income for life and the right to revoke the trust with the consent of trustees.

2. Yes, because the grantor retained sufficient control over the trust property through the power to revoke with the consent of non-adverse trustees, which is considered equivalent to a power to revoke reserved solely by the grantor for purposes of the section.

Court's Reasoning

The court focused on interpreting Section 113(a)(5) of the Internal Revenue Code, which provides a special rule for determining the basis of property transferred in trust. The court examined whether the trust satisfied the conditions for the special rule, particularly the requirement that the grantor reserved the right to revoke the trust. The court found that the trust met the requirements of the statute. The court found the trust instrument reserved to the grantor at all times prior to her death the right to revoke the trust with the consent of two nonadverse trustees, or one nonadverse trustee. The court cited the legislative history of the 1928 Revenue Act which indicated the intent to treat such transfers as if the trust had been a will. The court stated, "In view of the complete right of revocation in such cases on the part of the grantor at all times between the date of creation of the trust and his death, it is proper to view the property for all practical purposes as belonging to the grantor rather than the beneficiaries." The court looked to principles of gift taxation and the concept that a gift is not complete until put beyond recall. Since Beckman retained control over the property through her right to revoke, the court concluded that for tax purposes, the stock did not vest in the beneficiaries until her death.

Practical Implications

This case is significant because it clarifies how Section 113(a)(5) applies to trusts where the grantor's power to revoke is subject to the consent of a non-adverse party. Attorneys and tax professionals must consider this when advising clients on estate planning. The case establishes that when drafting revocable trusts, a reserved right to revoke, even if requiring the consent of a trustee without an adverse interest, can trigger the application of Section 113(a)(5). This will result in the basis of the trust property being determined by its value at the time of the grantor's death. This can have significant tax implications, as the stepped-up basis at death can reduce capital gains taxes. Later cases have followed this principle, reinforcing the importance of understanding the implications of retained powers in trust instruments on the basis of assets. This ruling emphasizes the importance of carefully structuring trusts to achieve the desired tax outcomes and the necessity of considering gift tax principles when analyzing the effect of such trusts.

© 2025 SCOTUSreports.com. All rights reserved.