28 T.C. 412 (1957)

When a decedent transfers stock in contemplation of death, subsequent stock dividends on that stock are also included in the decedent's gross estate for estate tax purposes because the transfer encompasses a proportional interest in the corporation that is not altered by the stock dividend.

Summary

The Estate of Delia Crawford McGehee contested the Commissioner of Internal Revenue's assessment of estate tax. The issues were whether stock dividends on stock transferred in contemplation of death should be included in the gross estate and whether a bequest to the surviving spouse qualified for a marital deduction. The Tax Court held that the stock dividends were includible and that the bequest did not qualify for the marital deduction. The court reasoned that the original transfer of stock represented a proportional interest in the corporation, and the stock dividends did not alter that interest but merely further divided it. Regarding the marital deduction, the court found that the will provided the surviving spouse with only a life estate, not a qualifying interest for the deduction.

Facts

Delia Crawford McGehee died testate on February 6, 1950. In 1947, 1948, and 1949, she transferred a total of 774 shares of Jacksonville Paper Company stock in contemplation of death. The company issued stock dividends in 1948 and 1949, distributing additional shares on the transferred stock. At the time of McGehee's death, all shares of stock were valued at $85 per share. McGehee's will devised and bequeathed all of her property to her husband in fee simple, with full power to dispose of the same and to use the income and corpus thereof in such manner as he may determine, without restriction or restraint, provided that if her husband still owned any of her property at his death, then one-half of it was to be divided between her siblings and the other half was to go to her husband's siblings. The executor claimed a marital deduction, which the Commissioner disallowed.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency in estate tax. The Estate contested this assessment in the United States Tax Court. The Tax Court ruled in favor of the Commissioner regarding the inclusion of the stock dividends and the denial of the marital deduction. The dissenting judges disagreed on the issue of the stock dividends.

Issue(s)

1. Whether stock dividends paid on stock transferred in contemplation of death should be included in the decedent's gross estate.

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2. Whether the devise and bequest to the surviving spouse qualified for the marital deduction.

Holding

1. Yes, the stock dividends are includible in the gross estate because the original transfer included a proportional interest in the corporation.

2. No, the devise and bequest to the surviving spouse did not qualify for the marital deduction because the spouse received a life estate rather than a fee simple interest.

Court's Reasoning

The court relied on the statute which provides that the value of the gross estate includes the value of any property of which the decedent made a transfer in contemplation of death. The court framed the issue as whether the decedent transferred simply the shares of stock or the proportional share in the corporation. The court reasoned that each share of stock represented a proportionate interest in the corporate business. The stock dividends did not change the stockholder's interest; they merely further splintered it. Thus, the value of the gross estate properly included the value of the stock dividends. The court distinguished the case from others where income, rather than the property itself, was at issue. The majority relied on the principle that for estate tax purposes, property transferred in contemplation of death is treated as if the transfer had not occurred. The court concluded that the will provided the surviving spouse with a life estate with a power of disposition, rather than a fee simple interest. Because of the limitations on the surviving spouse's interest, the bequest did not qualify for the marital deduction.

Practical Implications

This case has significant implications for estate planning and tax law. It clarifies that stock dividends on stock transferred in contemplation of death are subject to estate tax, expanding the scope of transfers considered in such situations. This understanding is important for attorneys counseling clients on gifts and estate planning strategies, especially those involving closely held corporations and stock dividends. This case also illustrates how specific language in a will can affect the availability of the marital deduction. If the surviving spouse's interest is subject to a limitation, it may not qualify for the marital deduction, increasing the estate tax liability. Practitioners must carefully analyze will language and its impact under state law. Later cases have cited this ruling to determine the extent of property transferred and to evaluate the nature of interests granted in wills. The case highlights the importance of considering the totality of a transfer and its economic substance, rather than its form, when assessing estate tax consequences.

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