***Estate of Bahen v. United States*, 305 F.2d 827 (Ct. Cl. 1962)**

Employee benefits payable after death are includible in the gross estate under either Section 811(a) or 811(f) if the decedent had enforceable vested rights, and claims against the estate are deductible if enforceable under state law.

Summary

The Estate of Bahen contested the inclusion of death benefits from profit-sharing and pension trusts in the decedent's gross estate, the inclusion of life insurance proceeds, and the deductibility of certain claims against the estate. The court held that the death benefits were includible under either Section 811(a) or 811(f) of the Internal Revenue Code of 1939, as the decedent possessed valuable property rights at death. The court found insufficient evidence to exclude a portion of the life insurance proceeds. However, the court partially allowed deductions for claims against the estate, determining that claims by the minor children were enforceable under Pennsylvania's statute of limitations, while claims by the widow and other adult children were not.

Facts

The decedent, Mr. Bahen, was entitled to benefits from profit-sharing and pension trusts established by his employers. Upon his death, payments were made to his designated beneficiaries. Bahen had assigned a life insurance policy to his wife. Premiums were paid by his wife after the assignment. The estate also included claims against the estate, represented by demand notes made by the decedent to his wife and children. The estate sought to exclude the value of the benefits payable from the trusts. The estate also sought to exclude a portion of the life insurance proceeds based on the premiums paid by the wife. Additionally, the estate sought deductions for claims against the estate based on the notes, some of which were held by Bahen's wife and adult children, and others by his minor children.

Procedural History

The Commissioner of Internal Revenue included the value of the profit-sharing and pension trust benefits in Bahen's gross estate, included the entire life insurance policy proceeds, and disallowed deductions for certain claims against the estate. The estate paid the resulting tax deficiency and filed a claim for a refund. After the claim for refund was denied, the estate sued in the United States Court of Claims to recover the tax paid.

Issue(s)

1. Whether the value of benefits payable under the profit-sharing and pension trusts is includible in the decedent's gross estate?

2. Whether a portion of life insurance proceeds should be excluded from the

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decedent’s gross estate based on premiums paid by his wife?

3. Whether claims against the estate, represented by demand notes, are deductible from the gross estate?

Holding

1. Yes, because the decedent possessed enforceable vested rights in the trusts, giving him valuable property rights that passed to his beneficiaries at his death.

2. No, because the court found insufficient evidence to conclude that the husband did not indirectly pay all the premiums.

3. Yes, in part, because the claims of the minor children were enforceable, while those of the wife and adult children were barred by the statute of limitations.

Court’s Reasoning

The court analyzed whether the death benefits from the trusts were properly included in the gross estate under Section 811(a) or (f) of the Internal Revenue Code. The court held the benefits includible because Bahen had enforceable vested rights in the trusts, and these rights were valuable property rights which passed to his beneficiary upon his death. The court distinguished this case from those in which the employer retained plenary control over the pension plan, finding here that Bahen had the right to designate beneficiaries and to change them, as well as the right to receive benefits unless he terminated his employment or was discharged for cause. The court then held the life insurance proceeds were includible because of the insufficient evidence provided to demonstrate that the premiums were not paid by the decedent either directly or indirectly. With regards to the claims against the estate, the court examined whether they were deductible, per Section 812(b), which required claims to be enforceable under state law. The court then examined Pennsylvania law, which provides a six-year statute of limitations on demand notes. The court determined that the claims of Bahen’s wife and adult children were barred by the statute of limitations. The court determined that the statute had not run on the claims held by his minor children.

The court stated that the death of the decedent

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