31 T.C. 269 (1958)

A transfer of property in consideration for marriage is considered a gift for the purposes of determining the recipient's basis in the property under the income tax laws, meaning the recipient's basis is the same as the donor's basis.

Summary

In 1937, as a condition of remarriage, a husband transferred stock to his former wife, who simultaneously granted him an option to repurchase the stock. The next day, they remarried. The Tax Court considered whether this transfer was a gift for tax purposes, impacting the wife's basis in the stock when she later sold it. The court held that the transfer was a gift, even though it was part of a premarital agreement, and therefore the wife's basis in the stock was the same as the husband's original basis at the time of the transfer. The court reasoned that the elements of a gift—intention to give, transfer of title without consideration, and acceptance—were present, and that the premarital arrangement did not disqualify the transfer as a gift under the relevant tax code provisions.

Facts

Ina Mae and Gordon A. Stouffer divorced in 1934, with Ina Mae receiving alimony. In 1937, Gordon asked Ina Mae to remarry him. Ina Mae agreed, contingent upon Gordon providing her with financial security. On March 6, 1937, Gordon transferred 2,000 shares of Stouffer Corporation stock to Ina Mae, with a basis of $5 per share and a fair market value of $20 per share. Simultaneously, Ina Mae granted Gordon an option to repurchase the stock for $40,000. The following day, they remarried. Years later, in 1951, they divorced again, with Gordon relinquishing his option to purchase the stock as part of the divorce settlement. Ina Mae sold some of the stock in 1952 and 1953, claiming a basis of $20 per share, the fair market value at the time of the initial transfer. The Commissioner determined that Ina Mae's basis was $0.50 per share, the basis of the stock in the hands of Gordon at the time of the transfer.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioners' income tax for 1952 and 1953, arguing that Ina Mae's basis in the stock was the same as Gordon's, which was much lower than she claimed. The petitioners challenged this determination in the United States Tax Court. The Tax Court considered the case alongside the related case, *Estate of Gordon A. Stouffer*, addressing issues related to Gordon's tax liability in connection with his surrender of the repurchase option. The Tax Court ruled in favor of the Commissioner, establishing that the shares were a gift from Gordon to Ina Mae, which was the subject of this appeal.

© 2025 SCOTUSreports.com. All rights reserved.

Issue(s)

1. Whether the transfer of stock from Gordon to Ina Mae in 1937, as a condition of remarriage, constituted a gift under Section 113(a)(2) of the Internal Revenue Code of 1939.

Holding

1. Yes, because the transfer was a gift, Ina Mae's basis in the stock was the same as Gordon's basis at the time of the transfer.

Court's Reasoning

The court analyzed the transaction under the definition of a gift in the income tax context, focusing on whether there was an intent to give, a transfer of title without consideration, and acceptance by the donee. The court found that these elements were present, despite the premarital context and the wife's insistence on security before remarrying. The court stated, "The essential elements of a gift are the intention to give, a transfer of title, without consideration or compensation and an acceptance by the donee." The court distinguished this from cases where the transfer was in consideration for the release of marital rights like dower or support. In this case, the right to support continued because the remarriage restored the wife's status. The Court concluded that the transfer was a gift, and therefore, the wife's basis in the stock was the same as the husband's basis at the time of the transfer. The court relied on the regulations to support that principle.

Practical Implications

This case establishes that premarital transfers, even when conditioned on the marriage taking place, can be considered gifts for tax purposes. Therefore, the recipient's basis in the transferred property is the same as the donor's basis, which could have significant tax consequences when the recipient sells the property. Taxpayers should be aware of how premarital agreements can affect the basis of transferred property, especially when considering the tax implications of future sales. This understanding is crucial for estate planning as well. This case also illustrates how the court interprets

© 2025 SCOTUSreports.com. All rights reserved.