32 T.C. 262 (1959)

When an estate elects the alternate valuation date for estate tax purposes and receives a stock dividend during the valuation period, the stock dividend is considered “included property” and must be included in the gross estate’s valuation if the dividend does not reasonably represent the same property interest as existed at the date of death.

Summary

The Estate of John Schlosser contested a deficiency in estate tax determined by the Commissioner of Internal Revenue. The issue concerned whether a stock dividend received by the estate during the alternate valuation period should be included in the gross estate’s valuation. The Tax Court held that the stock dividend, representing a “true” stock dividend, was “included property” and should be valued as of the alternate valuation date because the stock dividend did not represent the same property interest as the original shares held at the date of death. This ruling clarified the application of the alternate valuation method in cases involving stock dividends and their treatment under estate tax regulations.

Facts

John Schlosser died on January 25, 1953, owning 10,394 shares of Sun Oil Company common stock. The estate elected the alternate valuation date of January 25, 1954, as authorized by I.R.C. § 811(j). On October 20, 1953, Sun Oil declared a stock dividend of 8 shares for every 100 shares held, to be charged against the company’s surplus. The estate received 831 shares of Sun Oil stock as a result of the dividend on December 15, 1953. The Commissioner included the value of these 831 shares in the gross estate’s valuation on the alternate valuation date.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax, based on the inclusion of the stock dividend in the estate’s valuation using the alternate valuation method. The Estate challenged this determination in the United States Tax Court. The Tax Court upheld the Commissioner’s decision.

Issue(s)

1. Whether the value of the 831 shares of Sun Oil stock received as a stock dividend during the alternate valuation period is includible in the gross estate’s valuation under I.R.C. § 811(j).

Holding

1. Yes, because the stock dividend represented “included property” that must be included in the alternate valuation of the gross estate because the dividend did not

© 2025 SCOTUSreports.com. All rights reserved.

reasonably represent the same property interest in the corporation.

Court’s Reasoning

The court examined I.R.C. § 811(j) and the relevant Treasury Regulations, particularly Regs. 105, § 81.11. The court distinguished this case from prior holdings, like *Maass v. Higgins*, because the current case involved a stock dividend, not cash dividends, and considered the nature of the stock dividend as a “true” stock dividend. The court cited *Rev. Rul. 58-576* which clarified that a stock dividend, that is not income, must be included in the gross estate if it directly affects the value of the shares at the valuation date. The Tax Court found that the stock dividend did not provide the stockholder with an interest different from the original holdings, and represented a readjustment of the stockholder’s interest. The court emphasized that the shares on the alternate valuation date did not reasonably represent the same property interest as the original shares.

Practical Implications

This case established that stock dividends received during the alternate valuation period must generally be included in the gross estate’s valuation. When executors elect to use the alternate valuation, any stock dividends are considered part of the “included property.” This ruling highlights the need for careful tracking of stock dividends during the valuation period. If the stock dividend does not represent a change of interest, it’s value must be included with the original shares to properly determine the estate tax. This case is critical for estate planning and the valuation of assets, offering a clear method for determining estate taxes in situations with stock dividends.

© 2025 SCOTUSreports.com. All rights reserved.