32 T.C. 599 (1959)

A gift tax credit against the estate tax is only allowed for gift taxes paid on gifts that are later included in the gross estate, and no credit is available for gifts where no gift tax was initially paid, even if those gifts are also included in the gross estate as made in contemplation of death.

Summary

The Estate of Frank B. Chapman sought a gift tax credit against the estate tax for gifts made in 1950 and 1951, which were included in the gross estate as gifts made in contemplation of death. Gift taxes were paid on the 1951 gifts, but due to exclusions and the specific exemption, no gift taxes were paid on the 1950 gifts. The estate argued for a combined calculation of the credit, including the 1950 gifts. The U.S. Tax Court held that no gift tax credit was allowable for the 1950 gifts because no gift tax was paid on them, emphasizing the statutory requirement of prior gift tax payment for the credit. The court distinguished the case from *Estate of Milton J. Budlong*, where gift taxes had been paid in both relevant years.

Facts

Frank B. Chapman died on May 17, 1951. In 1950, he made gifts of property valued at $46,931.58 to his wife, son, and daughter. Gift tax returns were filed, but due to exclusions and exemptions, no gift taxes were due. In 1951, Chapman made additional gifts of property and cash totaling $448,931.78. Gift taxes of $74,165.14 were paid on these 1951 gifts. Both the 1950 and 1951 gifts were included in Chapman’s gross estate as gifts made in contemplation of death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in estate tax. The estate challenged the calculation of the gift tax credit. The case was submitted to the United States Tax Court on stipulated facts. The Tax Court ruled in favor of the Commissioner.

Issue(s)

1. Whether the estate is entitled to a gift tax credit for gifts made in 1950 when no gift tax was paid on those gifts, despite their inclusion in the gross estate as gifts made in contemplation of death.

Holding

1. No, because the relevant statutes only allow a gift tax credit against the estate tax for gift taxes that were actually paid on the gifts.

Court’s Reasoning

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The court focused on the precise language of the Internal Revenue Code of 1939, particularly Sections 813(a) and 936(b), which provide for the gift tax credit. The court emphasized that the statute explicitly requires that "a tax has been paid" on a gift for the credit to be applicable. Because no gift tax was paid on the 1950 gifts, no credit could be granted, even though these gifts were included in the gross estate. The court distinguished the case from the *Budlong Estate* case, because in that case gift taxes had been paid in both years involved. The court adopted the Commissioner's argument that a separate computation of the gift tax credit limitation was required with respect to each gift, and that no credit could be given for a year where no gift tax was paid.

Practical Implications

This case reinforces the importance of the specific statutory requirements for the gift tax credit. Attorneys should carefully examine whether gift taxes were actually paid when calculating the credit, even if the gifts are includible in the gross estate. It also highlights the need for precise computations when dealing with gifts made over multiple years, particularly in estate planning and tax litigation. Future similar cases will likely adhere to the strict interpretation of the statute, and the payment of gift tax will remain a prerequisite for claiming the credit.

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