Estate of Roger M. Chown, Deceased, Howard B. Somers, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent; Estate of Harriet H. Chown, Deceased, Howard B. Somers, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 51 T. C. 140 (1968)

When spouses die simultaneously, the full proceeds of a life insurance policy owned by one spouse on the life of the other are includable in the estate of the owner at the time of death.

Summary

In Estate of Chown v. Commissioner, the Tax Court held that the full proceeds of a life insurance policy owned by Harriet Chown on the life of her husband Roger, who died simultaneously with her in an airplane crash, were includable in Harriet's estate under Section 2033 of the Internal Revenue Code. The court rejected the executor's valuation based on the policy's reserve value, instead determining that the policy's value at the moment of simultaneous death was equal to the payable proceeds. The decision hinged on the policy being considered 'fully matured' at the instant of death, despite the lack of a practical opportunity to exercise ownership rights. This ruling has implications for estate planning involving life insurance policies and simultaneous deaths.

Facts

Harriet H. Chown owned a life insurance policy on the life of her husband, Roger M. Chown. Both died simultaneously in a commercial airliner crash on February 25, 1964. Harriet was the absolute owner of the policy, which named her as the primary beneficiary and their children as secondary beneficiaries. The insurance company paid the policy proceeds of $102,389. 40 to the children. The executor included only $8,046. 16 in Harriet's estate, representing the policy's interpolated terminal reserve value, unearned premium, and dividend accumulation. The Commissioner argued for the inclusion of the full proceeds in either Harriet's or Roger's estate, depending on the order of death.

Procedural History

The executor filed estate tax returns for both decedents, including $8,046. 16 in Harriet's estate. The Commissioner determined deficiencies in estate tax for both estates, asserting that the full $102,389. 40 should be included in one of the estates. The case was heard before the United States Tax Court, which issued its opinion on October 23, 1968.

Issue(s)

1. Whether the full proceeds of the life insurance policy are includable in Harriet's estate under Section 2033 of the Internal Revenue Code.
2. Whether any amount representing the policy or its proceeds is includable in

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Roger’s estate under Section 2042 of the Internal Revenue Code.

Holding

1. Yes, because at the instant of Harriet’s death, the policy was considered fully matured, and its value equaled the proceeds payable under its terms.
2. No, because Roger did not possess any incidents of ownership in the policy at the time of his death, as Harriet’s interest in the policy passed to him under Oregon law only after her death.

Court’s Reasoning

The court reasoned that under Section 2033, the value of Harriet’s interest in the policy at the time of her death should be included in her gross estate. The court rejected the executor’s valuation method based on the policy’s reserve value, finding it inappropriate given the circumstances of simultaneous death. Instead, the court applied the fair market value approach, determining that at the moment of death, the policy’s value was equal to the payable proceeds, as the policy was considered ‘fully matured. ‘ The court cited analogous cases where the value of a life insurance policy approached its face amount as the insured neared death. The court also noted that Oregon law, which treats property as if the insured survived the beneficiary in cases of simultaneous death, did not affect the valuation for federal estate tax purposes. Judge Fay concurred, emphasizing that Harriet’s absolute power of disposition over the policy proceeds at the moment of her death necessitated their inclusion in her estate.

Practical Implications

This decision clarifies that in cases of simultaneous death, the full proceeds of a life insurance policy owned by one spouse on the life of the other should be included in the estate of the owner. Estate planners must consider this ruling when structuring life insurance policies to minimize estate tax liability. The case also underscores the importance of understanding the interplay between state laws on simultaneous death and federal estate tax valuation rules. Subsequent cases have applied this ruling to similar situations, reinforcing the principle that the value of a life insurance policy at the moment of the owner’s death is determined by the payable proceeds, regardless of the practical ability to exercise ownership rights at that instant.

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