Estate of Henry Goelet, Deceased, Henriette Goelet, Executrix, Petitioner v. Commissioner of Internal Revenue, Respondent; Henriette Goelet, Petitioner v. Commissioner of Internal Revenue, Respondent, 51 T. C. 352 (1968)

A transfer in trust is not a completed gift for gift tax purposes if the settlor retains the power to change the beneficiaries' interests as between themselves.

Summary

In Estate of Goelet v. Commissioner, the Tax Court ruled that a transfer of stock into a trust by Henry Goelet was not a completed gift for gift tax purposes due to his retained powers as a trustee. The trust allowed Henry to control the distribution of income and principal to his children, potentially terminating the trust and affecting contingent beneficiaries. The court held that these powers prevented the gift from being complete. Additionally, the court found that Henriette Goelet did not make any part of the transfer, as she had no ownership interest in the stock. This case underscores the importance of relinquishing control over transferred property to establish a completed gift.

Facts

Henry Goelet transferred 110,500 shares of stock to a trust on February 24, 1960, naming himself, his wife Henriette, and two others as settlors, with Henry, Murray H. Gershon, and David H. Feldman as trustees. The trust was divided into four equal parts for their four children. Henry retained broad discretionary powers to distribute or accumulate income and to distribute principal, which could effectively terminate the trust for any beneficiary. The trust was irrevocable, but Henry's powers allowed him to control the beneficiaries' interests until his death in 1962.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in gift tax for 1960 against the Estate of Henry Goelet and Henriette Goelet. The cases were consolidated and heard by the United States Tax Court, which granted a motion to sever the issues for trial. The court addressed the principal issue of whether Henry's retained powers made the transfer incomplete for gift tax purposes and whether Henriette made any part of the transfer.

Issue(s)

1. Whether Henry Goelet's transfer of stock to the trust was a completed gift for gift tax purposes under section 2511(a) of the Internal Revenue Code of 1954, given his retained powers as a trustee.
2. Whether Henriette Goelet individually made a transfer of any part of the stock to the trust.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because Henry’s retained powers to control the distribution of income and principal, and to potentially terminate the trust, meant he did not relinquish dominion over the property, preventing the transfer from being a completed gift.
2. No, because Henriette had no ownership interest in the stock transferred to the trust.

Court’s Reasoning

The court analyzed that a gift is complete when the settlor relinquishes control over the property. Henry retained the power to distribute or accumulate income and to distribute principal, which could change the beneficiaries’ interests. These powers were not subject to a condition precedent and were exercisable at any time, thus preventing the transfer from being a completed gift. The court cited regulations and cases such as *Smith v. Shaughnessy* and *Commissioner v. Estate of Holmes* to support its decision. The court also found that Henriette did not own any part of the stock, relying on the stock certificate and her testimony.

Practical Implications

This decision clarifies that for a gift to be complete, the settlor must relinquish all control over the transferred property. Practitioners must ensure that clients do not retain powers that could alter beneficiaries’ interests or terminate the trust, as these will render the gift incomplete for tax purposes. The ruling also highlights the importance of clear ownership documentation, as the court relied on the stock certificate to determine that Henriette had no interest in the transferred stock. Subsequent cases have followed this precedent when assessing the completeness of gifts in trusts, emphasizing the need for careful drafting to avoid unintended tax consequences.

© 2025 SCOTUSreports.com. All rights reserved.