Stuit v. Commissioner, 54 T. C. 580 (1970)

Property transferred to oneself as custodian under the Uniform Gifts to Minors Act is includable in the gross estate under section 2038(a) if the custodian retains the power to terminate the custodianship.

Summary

In Stuit v. Commissioner, the U. S. Tax Court ruled that shares of stock transferred by Jennie Vanderpoel to herself as custodian for her grandsons under the Illinois Uniform Gifts to Minors Act were includable in her gross estate upon her death. The court determined that Vanderpoel, as custodian, retained the power to terminate the custodianship by distributing the property to the minors at her discretion, which fell under section 2038(a) of the Internal Revenue Code. This decision was based on the custodian's broad discretionary power to use the property for the minors' benefit, which was not limited by an external standard, thereby allowing for premature termination of the custodianship.

Facts

Jennie Vanderpoel transferred 150 shares of A. T. & T. stock to herself as custodian for her grandsons, Van Thomas Stuit and Harold J. Stuit, under the Illinois Uniform Gifts to Minors Act on July 26, 1961. The shares were registered with Vanderpoel as custodian for each grandson. Following a 2-for-1 stock split on June 1, 1964, the total value of the shares was $41,100 on October 16, 1964, when Vanderpoel died. Her estate tax return did not include these shares in the gross estate, leading to a deficiency determination by the Commissioner of Internal Revenue.

Procedural History

The Commissioner determined a deficiency in the estate tax of Jennie Vanderpoel's estate. The estate's executrix, Dorothy Stuit, filed a petition with the U. S. Tax Court contesting the inclusion of the custodial shares in the gross estate. The Tax Court upheld the Commissioner's determination that the shares were includable under section 2038(a) of the Internal Revenue Code.

Issue(s)

1. Whether shares of stock transferred by Jennie Vanderpoel to herself as custodian for her grandsons under the Illinois Uniform Gifts to Minors Act are includable in her gross estate under section 2038(a) of the Internal Revenue Code.

Holding

1. Yes, because as custodian, Vanderpoel retained the power to terminate the custodianship by distributing the property to the minors at her discretion, which falls within the scope of section 2038(a).

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The Tax Court reasoned that under section 534(b) of the Illinois statute, Vanderpoel, as custodian, had the power to distribute custodial property for the minors’ “benefit” in addition to their support, maintenance, and education. The court found that the term “benefit” did not provide an external standard sufficient to limit the custodian’s power to distribute the property, thus allowing for premature termination of the custodianship. The court distinguished prior cases where “benefit” or “happiness” was found to be an external standard, noting that those cases involved trusts with specific language or intent that was not present in the Uniform Act. The court relied on previous decisions, including Estate of Jack F. Chrysler, to affirm that the power to terminate a custodianship under the Uniform Act falls under section 2038(a).

Practical Implications

This decision clarifies that when a donor acts as custodian under the Uniform Gifts to Minors Act, the transferred property may be included in their gross estate if they retain the power to terminate the custodianship. Practitioners must advise clients against serving as custodians for their own gifts under these acts to avoid estate tax inclusion. This ruling has influenced subsequent cases and IRS guidance, emphasizing the need for clear separation of roles to prevent estate tax consequences. It also underscores the importance of understanding the specific language and intent of state statutes governing custodianships when planning estate transfers.

© 2025 SCOTUSreports.com. All rights reserved.