Estate of Beckwith v. Commissioner, 55 T. C. 242 (1970)

Assets transferred to a trust are not included in the decedent's gross estate under section 2036(a) if the decedent did not retain control over the trust or the underlying assets.

Summary

Harry Beckwith created irrevocable trusts and transferred stock in Beckwith-Arden, Inc. , a closely held corporation, to these trusts. The issue was whether the trust assets should be included in Beckwith's estate under section 2036(a) due to retained control. The court held that the assets were not includable because Beckwith did not retain possession or enjoyment of the stock, nor the right to designate who would enjoy its income. The trustees had the power to sell the stock, and Beckwith's voting rights were based on annually granted proxies rather than retained rights, thus not meeting the statutory criteria for inclusion in the estate.

Facts

Harry Beckwith created irrevocable trusts in 1957, transferring stock in Beckwith-Arden, Inc. to the trusts. He retained no ownership of the stock personally at the time of his death. The trust instruments allowed the trustees to retain or sell the stock at their discretion. Beckwith had the power to remove and replace trustees, but could not appoint himself. He voted the stock through annually granted proxies, which represented a majority of Beckwith-Arden's stock. The Commissioner argued that Beckwith's influence over the corporation's dividend policy and control over the stock through proxies constituted a retained life estate under section 2036(a).

Procedural History

The Commissioner determined a deficiency in Beckwith's estate tax, asserting that the trust assets should be included in the gross estate under section 2036(a). The case was brought before the United States Tax Court, where the executors of Beckwith's estate contested the inclusion of the trust assets in the estate.

Issue(s)

1. Whether the assets of the Harry H. Beckwith Trusts are includable in the decedent's gross estate under section 2036(a)(1) as a transfer with a retained life estate due to Beckwith's continued enjoyment of the stock.
2. Whether the assets of the Harry H. Beckwith Trusts are includable in the decedent's gross estate under section 2036(a)(2) as a transfer with a retained life estate due to Beckwith's ability to designate who shall possess or enjoy the stock or its income.

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because Beckwith did not retain possession or enjoyment of the stock; his voting rights were based on annually granted proxies rather than retained rights.
2. No, because Beckwith did not retain the right to designate who shall possess or enjoy the stock or its income; the trustees had the power to sell the stock, and Beckwith's influence over dividend policy was not a retained right.

Court's Reasoning

The court applied the legal rules under section 2036(a), which include property in the gross estate if the decedent retained possession or enjoyment of the property or the right to designate who shall possess or enjoy the property or its income. The court found that Beckwith did not retain these rights. The trust instruments explicitly provided for the distribution of income to named beneficiaries, and Beckwith had no power to control these distributions. The trustees had the unfettered power to sell the stock, which would terminate any influence Beckwith had over the trust income. Beckwith's voting rights were based on annually granted proxies, not retained rights, and thus did not meet the criteria for inclusion under section 2036(a). The court cited cases such as *White v. Poor* and *Skinner's Estate v. United States* to support its conclusion that rights conferred by third parties, such as proxies, are not considered retained rights under the statute.

Practical Implications

This decision clarifies that for assets transferred to a trust to be included in the gross estate under section 2036(a), the decedent must have retained control over the trust or the underlying assets. Practitioners should ensure that trust instruments do not grant the settlor retained rights over the trust property or its income. The decision also emphasizes the importance of the trustees' discretion to sell trust assets, which can prevent the inclusion of trust assets in the estate. This case has been cited in subsequent cases to support the principle that annually granted proxies do not constitute retained rights for estate tax purposes. It may influence estate planning strategies by encouraging the use of independent trustees and the inclusion of provisions allowing trustees to sell trust assets.

© 2025 SCOTUSreports.com. All rights reserved.