Estate of Harold E. Casey, Angela E. Casey, Executrix, Petitioner v. Commissioner of Internal Revenue, Respondent, 55 T. C. 737 (1971)

A trust is revocable and must be included in the decedent's gross estate if it is not expressly made irrevocable under applicable state law.

Summary

In Estate of Casey v. Commissioner, the Tax Court held that shares transferred in trust by the decedent must be included in his gross estate because the trust was revocable under California law. The decedent and his wife transferred shares to their niece as trustee for their children, initially without a written agreement. A written trust agreement was later executed, which included a revocation clause. The court determined that this agreement was effective and governed by California Civil Code Section 2280, which deems trusts revocable unless expressly made irrevocable. The ruling underscores the importance of clear documentation in trust creation and its impact on estate tax calculations.

Facts

Harold E. Casey and his wife, Angela, transferred 7,500 shares of stock to their niece, Sally Charles, as trustee for her four children on January 15, 1957. Initially, the trust terms were not documented in writing. Seven days later, a written trust agreement was executed, signed by Casey, and included a provision allowing the trust to be revoked. Casey referred to the shares as belonging to the children in conversations but never attempted to revoke the trust. Upon Casey's death in 1964, the estate excluded the stock value from the gross estate, leading to a dispute with the IRS over whether the trust was revocable and thus includable under IRC Section 2038.

Procedural History

The estate filed a tax return excluding the value of the trust-held stock. After an audit, the IRS determined a deficiency, asserting that Casey's community property interest in the stock should be included in the gross estate because the trust was revocable. The estate contested this in the U. S. Tax Court, which ruled in favor of the Commissioner, affirming the deficiency.

Issue(s)

1. Whether the trust created by the decedent was revocable under California law, thus requiring inclusion of the decedent's community property interest in his gross estate under IRC Section 2038.

Holding

1. Yes, because the trust was not expressly made irrevocable and was governed by

© 2025 SCOTUSreports.com. All rights reserved.

California Civil Code Section 2280, which deems voluntary trusts revocable unless expressly stated otherwise. The subsequent written trust agreement, which included a revocation clause, was deemed effective and controlling.

Court’s Reasoning

The court applied California Civil Code Section 2280, which presumes trusts to be revocable unless expressly stated otherwise. The written trust agreement, executed seven days after the initial transfer, was considered effective under California Civil Code Section 2254, which merges prior declarations into the written document. The court rejected the estate’s argument that the trust was irrevocable based on Casey’s statements to his niece, finding them insufficient to establish an express intent of irrevocability as required by law. The court also relied on Estate of Henry James Davis, where a similar oral trust was deemed revocable, reinforcing the application of California law to federal estate tax inclusion under IRC Section 2038.

Practical Implications

This decision emphasizes the need for clear, written documentation of trust terms, particularly regarding revocability, to avoid estate tax liabilities. Legal practitioners must ensure that trusts are expressly made irrevocable if that is the intent, as state law governs the trust’s revocability for federal tax purposes. The ruling affects estate planning by highlighting the potential for inclusion of trust assets in the gross estate if revocability is not clearly addressed. It also influences how similar cases should be analyzed, focusing on the express language of trust agreements and applicable state statutes. Subsequent cases have applied this ruling in assessing the revocability of trusts and their impact on estate taxes.

© 2025 SCOTUSreports.com. All rights reserved.