Wolder v. Commissioner, 58 T. C. 974 (1972)

Compensation received by a legatee pursuant to a contractual agreement with the decedent, even if received through a bequest, is taxable as income rather than excluded as a bequest.

Summary

In Wolder v. Commissioner, the Tax Court ruled that assets received by Victor Wolder under Marguerite Boyce's will were taxable as income. Wolder had agreed to provide legal services to Boyce in exchange for specific assets in her will. Despite the will's unconditional bequest language, the court found that these assets represented compensation for services rendered, not a gift, and thus were taxable under Section 61 of the Internal Revenue Code. The court also determined that Wolder constructively received the assets in 1965, the year of Boyce's death, not 1966 when he physically received them. This case underscores the importance of examining the nature of bequests to determine their tax implications.

Facts

In 1947, Victor Wolder and Marguerite Boyce entered into an agreement where Wolder agreed to provide legal services to Boyce without charge in exchange for specific assets in her will. Boyce died in 1965, and her will bequeathed cash and Schering Corporation stock to Wolder, reflecting the terms of their agreement. Wolder received the cash in 1966 and the stock certificates in January 1966, though they were registered in his name on January 21, 1966. The estate was liquid, with assets far exceeding liabilities.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wolder's 1966 income tax return, asserting that the assets received from Boyce's estate were taxable income. Wolder petitioned the U. S. Tax Court for a redetermination. The Tax Court, in a majority opinion, upheld the Commissioner's determination that the assets were taxable as compensation for services rendered, not as a bequest. Judge Quealy dissented, arguing that the assets were received by bequest and thus should be tax-exempt under Section 102(a).

Issue(s)

1. Whether the cash and Schering stock received by Wolder under Boyce's will constituted taxable compensation for services under Section 61, rather than an excludable bequest under Section 102(a).
2. Whether Wolder constructively received the Schering stock in 1965, the year of Boyce's death, or in 1966 when he physically received the stock certificates.
3. Whether Wolder was entitled to income averaging under Section 1301.

Holding

1. Yes, because the assets represented compensation for services Wolder provided to Boyce, not a gratuitous bequest, making them taxable under Section 61.
2. Yes, because under New York law, Wolder had an unfettered right to the stock as of the date of Boyce's death, triggering constructive receipt in 1965.
3. No, because Wolder did not receive at least 80% of the income attributable to the services in one taxable year, as required by Section 1301.

Court's Reasoning

The court focused on the contractual nature of the agreement between Wolder and Boyce, emphasizing that the bequest was intended as compensation for services. The court distinguished this from gratuitous bequests, citing cases like Cotnam v. Commissioner and McDonald, where compensation paid after a decedent's failure to bequeath as promised was taxable. The court rejected Wolder's argument that the bequest's unconditional language in the will should exempt it from tax, asserting that the underlying purpose of the bequest was to fulfill the 1947 agreement. The court also applied the doctrine of constructive receipt, determining that Wolder's right to the stock vested upon Boyce's death, given the liquidity of the estate and his ability to demand delivery. Judge Quealy's dissent argued that the bequest should be treated as tax-exempt under Section 102(a), as it was unconditional and supported by New York court rulings.

Practical Implications

This decision emphasizes that the tax treatment of assets received via a will depends on the underlying agreement between the parties, not merely the language of the will. Practitioners must advise clients that bequests intended as compensation for services are taxable, regardless of their form. The ruling on constructive receipt highlights the importance of considering state law rights to assets in determining the timing of income recognition. This case has influenced subsequent cases dealing with the tax treatment of bequests, such as Estate of Smith v. Commissioner, where similar principles were applied. Businesses and individuals should structure compensation agreements carefully to avoid unintended tax consequences.

