Jones v. Commissioner, 61 T. C. 78 (1973)

The basis of property acquired by a remainderman from a trust created before January 1, 1921, is determined by the fair market value of the property at the time of the original transfer to the trust, not when the remainderman's interest vests.

Summary

In Jones v. Commissioner, the Tax Court held that the basis for shares of stock received by Olga Jones from a trust established in 1915 should be calculated using the stock's fair market value at the time of the initial transfer to the trust, not when her interest vested in 1953. The trust, set up by Frank Pauson, distributed the shares to Jones upon the death of the income beneficiary in 1953. The court reasoned that under Section 1015(c) of the Internal Revenue Code, the relevant date for determining basis is the date of the original transfer in trust, preventing the untaxed appreciation of property transferred before 1921. This decision has significant implications for calculating the basis of assets from pre-1921 trusts, ensuring consistent tax treatment and preventing potential tax evasion.

Facts

Frank Pauson created a trust on December 8, 1915, transferring 20 shares of stock in Frank Pauson & Sons to the trust. The trust was set up to benefit his daughter Olga Wilson, with the corpus to be distributed to her surviving children upon her death and their reaching the age of 25. Olga Wilson died on April 26, 1953, and her granddaughter and adopted daughter, Olga Jones, received 10 shares of the stock on May 20, 1953. In 1969, the company was liquidated, and Jones received assets valued at $335,292 in exchange for her shares. The issue was whether the basis for these shares should be their value in 1915 or 1953.

Procedural History

The Commissioner determined a deficiency in Jones's 1969 income tax, asserting that the basis of the stock should be its value as of December 8, 1915. Jones contested this, arguing for a basis based on the 1953 value. The case was heard by the United States Tax Court, which ruled in favor of the Commissioner's interpretation of Section 1015(c).

Issue(s)

1. Whether the basis of the shares of stock received by Olga Jones from the 1915 trust should be determined by their fair market value at the time of the original transfer to the trust in 1915 or at the time Jones's interest vested in 1953.

Holding

1. Yes, because under Section 1015(c) of the Internal Revenue Code, the basis of

property acquired from a trust established before January 1, 1921, is the fair market value at the time of the original transfer to the trust, not when the remainderman's interest vests.

Court's Reasoning

The court relied on Section 1015(c), which specifies that the basis for property acquired by gift or transfer in trust before January 1, 1921, is its fair market value at the time of acquisition. The court interpreted "time of acquisition" to mean the date the property was transferred to the trust, not when the remainderman's interest became vested. This interpretation was supported by the legislative history aimed at preventing untaxed appreciation of property transferred before 1921. The court also cited Richard Archbold, 40 B. T. A. 1238, and subsequent cases that upheld this view. The court emphasized that the regulations under Section 1. 1015-3(a) reinforced this interpretation, stating that the basis should be the value at the time of the transfer in trust. The court dismissed Jones's argument that the basis should be determined when her interest vested, as it would contradict the statute's purpose and prior judicial interpretations.

Practical Implications

This decision clarifies that for assets received from trusts established before 1921, the basis for tax purposes is the fair market value at the time the trust was created, not when the beneficiary's interest vests. This ruling ensures consistent tax treatment and prevents potential tax evasion by fixing the basis at an earlier date. Practitioners must consider this when advising clients on the tax implications of assets from pre-1921 trusts. The decision also influences how similar cases are analyzed, requiring attorneys to focus on the date of the original transfer rather than the vesting of interests. Subsequent cases, such as Helvering v. Reynolds, have followed this principle, solidifying its application in tax law.

