Estate of Du Pont v. Commissioner, 63 T. C. 746 (1975)

The value of property transferred during life is includable in the gross estate if the decedent retains possession or enjoyment until death, even if structured through a lease with a corporation.

Summary

William du Pont, Jr. , transferred property to his wholly owned corporations, Hall, Inc. , and Point Happy, Inc. , then leased it back and transferred the corporations' stock to trusts. The Tax Court held that the Hall, Inc. , property must be included in du Pont's estate under IRC § 2036(a)(1) because the lease terms did not reflect an arm's-length transaction, effectively retaining possession and enjoyment until his death. In contrast, the Point Happy property was excluded as the lease reflected fair market value, suggesting an arm's-length deal. The court also ruled that the value of Hopeton Holding Corp. preferred stock, which controlled voting rights in Delaware Trust Co. , did not include control value in du Pont's estate, as it was limited to his lifetime.

Facts

William du Pont, Jr. , conveyed 242 acres of his 260-acre estate, Bellevue Hall, to his newly formed corporation, Hall, Inc. , retaining 18 acres. He then leased the transferred portion back from Hall, Inc. , at a rent based on its use as a horse farm, significantly below its highest and best use value for development. Shortly after, he transferred all Hall, Inc. , stock to an irrevocable trust. Similarly, he arranged for Point Happy, Inc. , to acquire property, leased it at fair market value, and transferred its stock to another trust. Additionally, du Pont held preferred stock in Hopeton Holding Corp. , which controlled voting rights in Delaware Trust Co. , and placed this in a revocable trust.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in du Pont's estate tax and included the value of the leased properties in the gross estate. The estate contested this in the U. S. Tax Court, which ruled on the inclusion of the Hall, Inc. , property but not the Point Happy property under IRC § 2036(a)(1). The court also addressed the valuation of the Hopeton preferred stock.

Issue(s)

1. Whether the value of the Hall, Inc. , property leased back to du Pont should be included in his gross estate under IRC § 2036(a)(1)?
2. Whether the value of the Point Happy property leased back to du Pont should be included in his gross estate under IRC § 2036(a)(1)?
3. Whether the value of the Hopeton Holding Corp. preferred stock included control value over Delaware Trust Co. in du Pont's estate?

Holding

1. Yes, because the lease terms did not reflect an arm's-length transaction, and du Pont retained possession and enjoyment of the property until his death.
2. No, because the lease terms reflected fair market value, suggesting an arm's-length transaction.
3. No, because du Pont's control over Delaware Trust Co. via the Hopeton preferred stock was limited to his lifetime and did not extend beyond his death.

Court's Reasoning

The court applied IRC § 2036(a)(1), which requires inclusion in the gross estate of property transferred if the decedent retains possession or enjoyment until death. For Hall, Inc. , the court found the lease terms were not reflective of an arm's-length deal, as the rent was based on a lower use value than the property's highest and best use, and the lease lacked a termination clause. This suggested the transfer was a device to retain possession and enjoyment. For Point Happy, the lease terms were at fair market value, indicating a bona fide transaction. Regarding the Hopeton preferred stock, the court noted that du Pont's control was limited to his lifetime due to the terms of his father's will, which required distribution of the trust's assets upon his death, and was confirmed by Delaware's highest court decision.

Practical Implications

This decision underscores the importance of structuring property transfers and leases to reflect arm's-length transactions for estate tax purposes. Practitioners must ensure that lease terms are at fair market value and include termination clauses when appropriate to avoid inclusion in the estate under IRC § 2036(a)(1). The ruling also clarifies that control rights derived from stock ownership, if limited to the decedent's lifetime, do not add value to the estate. This case has influenced subsequent estate planning strategies, emphasizing the need for careful structuring of trusts and corporate arrangements to minimize estate tax liabilities.

