Estate of W. Vincent Meyer, Deceased, Everett Trust & Savings Bank, Trustee, Petitioner v. Commissioner of Internal Revenue, Respondent, 66 T. C. 41 (1976)

Life insurance policy proceeds paid with community funds are presumed to be community property unless clear evidence shows an intent to make the policy the separate property of the beneficiary.

Summary

W. Vincent Meyer purchased a life insurance policy naming his wife as the owner and beneficiary, using community funds for premiums. The estate argued the policy was the wife's separate property, thus not includable in Meyer's gross estate. The Tax Court disagreed, holding that the policy was community property under Washington law, and half the proceeds should be included in the estate. The court rejected the estate's claim that naming the wife as beneficiary automatically made the policy her separate property, emphasizing the need for clear evidence of an intent to gift the husband's community interest to the wife.

Facts

W. Vincent Meyer, a Washington resident, purchased a decreasing term life insurance policy on his life, naming his wife as the owner and beneficiary. The policy was applied for on April 29, 1966, and issued on July 12, 1966. Premiums were paid from a community property bank account via a bank check plan. Upon Meyer's death on March 24, 1970, the insurance company paid $46,920 to his wife as beneficiary. The estate did not include any portion of these proceeds in Meyer's gross estate for tax purposes, asserting the policy was the wife's separate property.

Procedural History

The executor filed an estate tax return on June 25, 1971, excluding the insurance proceeds. The Commissioner determined a deficiency, leading the estate to petition the Tax Court. The Tax Court held that half of the insurance proceeds were includable in the estate as community property.

Issue(s)

1. Whether the life insurance policy on Meyer's life, naming his wife as owner and beneficiary, was the separate property of his wife or community property of Meyer and his wife.
2. Whether Washington Revised Code sec. 48. 18. 440 automatically converts such a policy into the wife's separate property when she is named beneficiary.

Holding

1. No, because the estate failed to prove by clear and convincing evidence that

Meyer intended to make a gift of his community interest in the policy to his wife.
2. No, because Washington law does not convert the policy into the wife's separate property merely because she is named beneficiary; the policy remains community property unless clearly transmuted.

Court's Reasoning

The court applied Washington community property law, which presumes property acquired during marriage to be community property unless acquired by gift, devise, or inheritance. The burden to prove separate property status is heavy, requiring clear, definite, and convincing evidence of an intent to gift. The court found no such evidence in this case, noting the lack of discussion about the marital relationship's effect on the policy ownership and the absence of an endorsement declaring the policy as the wife's separate property. The court also examined Washington Revised Code sec. 48. 18. 440, concluding it does not automatically convert a policy into the wife's separate property when she is named beneficiary. The court cited previous Washington Supreme Court cases like Schade v. Western Union Life Ins. Co. and In re Towey's Estate, which interpreted similar statutes as applying to the proceeds rather than the policy itself, and only upon the insured's death.

Practical Implications

This decision underscores the importance of clear intent in transmuting community property to separate property, particularly in the context of life insurance policies. Practitioners must advise clients to document any intent to gift a community interest in a life insurance policy to the beneficiary. The ruling also clarifies that under Washington law, naming a spouse as beneficiary does not automatically make the policy their separate property. This case impacts estate planning in community property states, emphasizing the need for careful documentation and understanding of state law when using life insurance as an estate planning tool. Subsequent cases have continued to apply this principle, reinforcing the need for clear evidence of a gift to overcome the community property presumption.

