Estate of Nathalie F. Bell, Deceased, Gilbert H. Osgood and Chicago Title and Trust Co. , Executors, Petitioners v. Commissioner of Internal Revenue, Respondent, 66 T. C. 729; 1976 U. S. Tax Ct. LEXIS 73

The value of trust assets is includable in the decedent's gross estate under section 2038(a)(1) when the decedent, as a trustee, holds a power to distribute corpus without an objective standard.

Summary

Nathalie F. Bell transferred a Treasury note and cash to a trust where she served as a cotrustee. The trust allowed the trustees to distribute corpus for the beneficiary's benefit, a power that lacked an objective standard. The Tax Court held that the value of the trust assets attributable to Bell's contributions was includable in her gross estate under section 2038(a)(1) because she retained a power to alter the enjoyment of the transferred property. The court determined the includable value by excluding assets traceable to other contributors, resulting in $13,636. 28 being added to her estate.

Facts

Nathalie F. Bell, a resident of Illinois, died on February 24, 1971. She was a cotrustee of the Helen de Freitas Trust, established by her husband, Laird Bell, for their daughter. On December 26, 1950, Nathalie transferred a $5,000 U. S. Treasury note and $1,500 in cash to the trust, which constituted 0. 98% of the trust's value at that time. The trust allowed the trustees to distribute corpus to the beneficiary for a home, business, or any other purpose believed to be for her benefit. At her death, the trust's assets had significantly appreciated, primarily due to contributions and stock splits from Laird Bell's original transfers.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Bell's estate tax, asserting that the value of the trust assets attributable to her contributions should be included in her gross estate under sections 2036(a)(2) and 2038. The executors of Bell's estate petitioned the Tax Court, arguing that her power as a trustee was subject to an objective standard and thus not includable. The Tax Court rejected this argument and held for the Commissioner under section 2038(a)(1).

Issue(s)

1. Whether the value of assets transferred by Nathalie F. Bell to the trust is includable in her gross estate under section 2038(a)(1) due to her power as a cotrustee to distribute corpus without an objective standard.
2. If includable, what is the fair market value of those assets as of the alternate valuation date of August 24, 1971?

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Holding

1. Yes, because the power held by Bell as a cotrustee to distribute corpus for any purpose believed to be for the beneficiary's benefit lacked an objective standard, making the value of her transferred assets includable in her gross estate under section 2038(a)(1).
2. The includable value of the trust assets as of August 24, 1971, is $13,636. 28, after excluding assets traceable to Laird Bell's contributions.

Court's Reasoning

The court found that the trust's provisions allowing corpus distribution for the beneficiary's benefit were not subject to an external standard enforceable in a court of equity. The language "for any other purpose believed by the Trustees to be for her benefit" was deemed too broad to constitute an objective standard, thus falling under section 2038(a)(1). The court rejected the argument that the terms "home" and "business" provided an objective standard, noting the unlimited discretion given to the trustees. The court also excluded assets traceable to Laird Bell from the valuation, focusing only on assets directly attributable to Nathalie's contributions.

Practical Implications

This decision clarifies that when a decedent retains a power over trust corpus without an objective standard, the value of transferred property is includable in the gross estate under section 2038(a)(1). Practitioners must carefully draft trust instruments to ensure that any powers retained by the grantor or trustees are subject to clear, objective standards to avoid estate tax inclusion. The ruling also demonstrates the importance of tracing assets to determine the includable value accurately, especially in trusts with multiple contributors. Subsequent cases have applied this principle, emphasizing the need for precise drafting to avoid unintended tax consequences.

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