Jewett v. Commissioner, 63 T. C. 772 (1975)

A disclaimer of a remainder interest in a trust must be made within a reasonable time after the interest is created to avoid gift tax liability.

Summary

In Jewett v. Commissioner, the Tax Court addressed whether disclaimers executed by George F. Jewett, Jr. , of his remainder interest in a trust constituted taxable gifts. The trust was established under the will of Margaret Weyerhaeuser Jewett, with Jewett holding a contingent remainder interest subject to his survival of his mother, the life tenant. Jewett disclaimed 95% of his interest in 1972, 33 years after the trust's creation and 24 years after reaching majority. The court held that the disclaimers were taxable gifts because they were not made within a reasonable time after the creation of the interest. The decision emphasized that the gift tax aims to prevent the use of disclaimers as estate planning tools, reinforcing that the reasonable time for disclaimers is measured from the creation of the interest under federal law.

Facts

George F. Jewett, Jr. , inherited a contingent remainder interest in a trust established by his grandmother, Margaret Weyerhaeuser Jewett, upon her death in 1939. The trust provided income to his grandfather and then to his mother, Mary Cooper Jewett, as life tenants. Jewett's remainder interest was contingent upon his survival of his mother. In 1972, Jewett executed disclaimers renouncing 95% and then the remaining 5% of his interest in the trust. At the time of the disclaimers, the trust corpus was valued at approximately $8 million. The Commissioner assessed gift tax deficiencies, arguing that the disclaimers constituted taxable gifts.

Procedural History

The Commissioner determined gift tax deficiencies for the calendar quarters ending September 30, 1972, and December 31, 1972, based on Jewett's disclaimers. Jewett filed a petition with the Tax Court to challenge these deficiencies. The Tax Court reviewed the case and issued a decision that the disclaimers were taxable gifts.

Issue(s)

1. Whether the disclaimers executed by George F. Jewett, Jr. , in 1972 of his remainder interest in the trust constituted taxable gifts under federal gift tax law.

Holding

1. Yes, because the disclaimers were not made within a reasonable time after the creation of Jewett's interest in the trust, as required by federal gift tax regulations.

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Court’s Reasoning

The Tax Court reasoned that under federal gift tax law, a disclaimer must be made within a reasonable time after the creation of the interest to avoid being treated as a taxable gift. The court applied the regulation that a disclaimer is not a gift if it is unequivocal, effective under local law, and executed within a reasonable time after knowledge of the transfer. The court found that Jewett’s disclaimers, made 33 years after the trust’s creation and 24 years after he reached the age of majority, were not timely. The court rejected Jewett’s argument that the reasonable time should be measured from the death of the last life tenant, citing Keinath v. Commissioner and emphasizing that federal law governs the timeliness of disclaimers for gift tax purposes. The court also noted that the gift tax aims to prevent the use of disclaimers as estate planning tools, and that Jewett’s delay in disclaiming allowed him to control the disposition of the trust assets for an extended period.

Practical Implications

This decision impacts estate planning and tax strategies involving disclaimers of trust interests. It clarifies that for federal gift tax purposes, the reasonable time for a disclaimer begins at the creation of the interest, not upon the termination of a life estate. Legal practitioners must advise clients to disclaim interests promptly to avoid gift tax liability. The ruling underscores the importance of understanding the distinction between state property law and federal tax law in planning disclaimers. Subsequent legislation, such as Section 2518 added by the Tax Reform Act of 1976, further codified the principles established in this case, emphasizing the need for timely disclaimers to avoid tax consequences. This case continues to influence how courts and practitioners approach disclaimers in estate and gift tax planning.

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