Estate of Schelberg v. Commissioner, 70 T. C. 690 (1978)

Survivors income benefits under an employer's life insurance plan must be included in the decedent's gross estate under section 2039 when aggregated with the decedent's rights to disability payments.

Summary

William V. Schelberg, an IBM employee, died leaving his widow entitled to a survivors income benefit under IBM's Life Insurance Plan. The IRS Commissioner determined this benefit should be included in Schelberg's gross estate under section 2039. The Tax Court upheld this determination, reasoning that Schelberg's potential rights to disability payments under a separate IBM plan must be aggregated with the survivors benefit for section 2039 purposes. This case clarifies that all employer-provided benefits related to employment must be considered together when determining estate tax liability under section 2039, even if the decedent was not receiving those benefits at the time of death.

Facts

William V. Schelberg was an IBM employee from 1952 until his death on January 6, 1974. At the time of his death, IBM maintained several employee benefit plans, including the Life Insurance Plan, Retirement Plan, Sickness and Accident Plan, and Disability Plan. Schelberg's widow received a death benefit of $23,666. 67 and a monthly survivors income benefit of $1,062. 50 under the Life Insurance Plan. Schelberg had not received benefits from the Disability Plan at his death, but would have been eligible if he became totally and permanently disabled before normal retirement age. The Commissioner determined the present value of the survivors income benefit ($94,708. 83) should be included in Schelberg's gross estate under section 2039.

Procedural History

The Commissioner issued a notice of deficiency asserting the survivors income benefit should be included in Schelberg's gross estate. The Estate of Schelberg filed a petition with the United States Tax Court challenging this determination. The Tax Court upheld the Commissioner's determination, finding the survivors income benefit includable in the gross estate under section 2039 when considered together with Schelberg's rights under the Disability Plan.

Issue(s)

1. Whether the survivors income benefit payable under IBM's Life Insurance Plan must be included in Schelberg's gross estate under section 2039 when aggregated with his rights under the Disability Plan?
2. Whether the benefits under the Disability Plan constitute an "annuity or other payment" under section 2039?

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3. Whether Schelberg possessed the right to receive payments under the Disability Plan at the time of his death?

Holding

1. Yes, because section 2039 requires all employment-related benefits to be considered together, including the survivors income benefit and Schelberg's rights under the Disability Plan.
2. Yes, because the Disability Plan provided post-employment benefits payable during Schelberg's lifetime if he became totally and permanently disabled.
3. Yes, because Schelberg had complied with all terms of his employment and had a nonforfeitable right to disability payments if he became disabled before retirement age.

Court's Reasoning

The court applied Treasury regulations requiring aggregation of all employment-related benefits for section 2039 purposes. It distinguished the Disability Plan from the Sickness and Accident Plan, finding disability benefits to be post-employment benefits rather than wage continuation. The court relied on Bahen's Estate and other cases holding similar disability benefits to be "other payments" under section 2039. It rejected the estate's argument that Schelberg did not possess the right to disability payments at death, finding his right nonforfeitable because he had complied with all employment terms. The court acknowledged the issue's difficulty but found the weight of precedent compelled inclusion of the survivors income benefit in the gross estate.

Practical Implications

This decision clarifies that all employment-related benefits must be aggregated for section 2039 estate tax purposes, even if the decedent was not actually receiving those benefits at death. Estate planners must consider potential rights to any employer-provided benefits, not just those currently payable, when calculating estate tax liability. The case expands the scope of section 2039 to include disability benefits as "other payments," even if conditioned on future events. Employers should carefully structure benefit plans to minimize unintended estate tax consequences for employees. Subsequent cases have followed Schelberg in aggregating employment-related benefits for section 2039 purposes.

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