Estate of Siegel v. Commissioner, 73 T. C. 986 (1980)

Benefits under an employment contract are includable in a decedent's gross estate if the decedent retained the power to alter, amend, or revoke the benefits, even if such power requires mutual consent with another party.

Summary

In Estate of Siegel v. Commissioner, the court addressed whether payments to the decedent's children under an employment contract should be included in his gross estate. The contract provided for payments to the children in the event of Siegel's death or disability, but Siegel retained the power to modify these terms with the employer's mutual consent. The court held that these payments were not postemployment benefits under Section 2039(a) as they were contingent upon Siegel's continued service. However, under Section 2038(a)(1), the court ruled that the payments were includable in the gross estate because Siegel retained the power to modify the contract, thus affecting the enjoyment of the transferred property.

Facts

Murray J. Siegel, president and CEO of Vornado, Inc. , died in 1971. Under his employment contract with Vornado, his children were entitled to monthly payments upon his death or disability. The contract also allowed Siegel and Vornado to mutually modify these terms. Siegel's executors excluded these payments from his gross estate, leading to a dispute with the Commissioner over their inclusion under Sections 2039(a) and 2038(a)(1) of the Internal Revenue Code.

Procedural History

The Commissioner determined a deficiency in Siegel's estate tax, leading to a dispute over the inclusion of payments to Siegel's children in his gross estate. The Tax Court addressed the issue in 1980, focusing on whether the payments constituted postemployment benefits under Section 2039(a) or were subject to Siegel's retained power under Section 2038(a)(1).

Issue(s)

1. Whether the payments to Siegel's children under the employment contract are includable in his gross estate under Section 2039(a) as postemployment benefits.
2. Whether the payments are includable in Siegel's gross estate under Section 2038(a)(1) due to Siegel's retained power to alter, amend, or revoke the contract.

Holding

1. No, because the payments were not postemployment benefits but were contingent upon Siegel's continued service.
2. Yes, because Siegel retained a power in conjunction with Vornado to modify the

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rights of the beneficiaries, thus including the payments in his gross estate.

Court’s Reasoning

The court analyzed the employment contract and found that the payments to Siegel’s children were not postemployment benefits under Section 2039(a). The court noted that Siegel was expected to continue rendering services even during periods of disability, and the payments were considered salary or wage continuation. The court distinguished this case from others where disability benefits were clearly postemployment.

Under Section 2038(a)(1), the court ruled that the payments were includable because Siegel retained the power to modify the contract in conjunction with Vornado. This power was explicitly stated in the contract, distinguishing it from cases where such power was not expressly reserved. The court emphasized that this reserved power was greater than what would be available under local contract law, leading to inclusion in the gross estate.

The court also addressed the parol evidence rule, admitting testimony to interpret ambiguous terms in the contract, and considered New Jersey law on third-party beneficiaries, concluding that the reserved power was sufficient for inclusion under Section 2038(a)(1).

Practical Implications

This decision clarifies that employment contract benefits are not automatically considered postemployment benefits for estate tax purposes if they are contingent upon continued service. However, if a decedent retains a power to modify the contract, even with mutual consent, those benefits may be included in the gross estate. Attorneys should carefully draft employment contracts to avoid unintended estate tax consequences, considering the potential for retained powers to affect the estate’s tax liability. This ruling may influence how future contracts are structured, particularly in defining the nature of benefits and the rights of third-party beneficiaries.

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