Griswold v. Commissioner, 81 T. C. 141 (1983)

For federal gift tax purposes, a disclaimer must be made within a reasonable time after the beneficiary has knowledge of the transfer, regardless of the contingency of the interest.

Summary

In Griswold v. Commissioner, the U. S. Tax Court held that disclaimers made by Adelaide Griswold, Amory Houghton, Jr. , and James Houghton of their interests in a trust established by their grandfather were taxable gifts because they were not made within a reasonable time after the beneficiaries had knowledge of the transfer. The trust was created in 1941, and the beneficiaries were served notice of their interests in 1957. They disclaimed their interests in 1974, after the death of the life beneficiary, which was deemed too late. The court clarified that the 'transfer' occurred when the trust was created, and 'knowledge' was established when the beneficiaries were served notice, emphasizing the broad application of the gift tax and the need for timely disclaimers.

Facts

Alanson B. Houghton's will, probated in 1942, established a trust with his daughter Elisabeth as the life beneficiary and his grandchildren as contingent remaindermen. In 1957, the trustees sought judicial settlement of the trust's first intermediate accounting, and citations were served to all interested parties, including Adelaide, Amory Jr. , and James, who were all over 21 at the time. Elisabeth died without issue in 1974, and shortly thereafter, the grandchildren disclaimed their interests in the trust, which then passed to their children.

Procedural History

The Commissioner of Internal Revenue determined gift tax deficiencies against the grandchildren for their disclaimers. The taxpayers filed petitions in the U. S. Tax Court to contest these deficiencies. The cases were consolidated for trial and decided by the Tax Court in 1983.

Issue(s)

1. Whether the 'transfer' within the meaning of section 25. 2511-1(c), Gift Tax Regs. , occurred when the trust was created in 1941 or upon the death of the life beneficiary in 1974.
2. Whether the taxpayers had 'knowledge of the existence of the transfer' within the meaning of section 25. 2511-1(c), Gift Tax Regs. , when they were served with citations in 1957, thus making their disclaimers in 1974 untimely.

Holding

1. Yes, because the ‘transfer’ occurred in 1941 when the trust was created, as established by the Supreme Court in Jewett v. Commissioner.
2. Yes, because the taxpayers had ‘knowledge of the existence of the transfer’ when they were personally served with citations in 1957, and their disclaimers made approximately 17 years later were not within a reasonable time as required by the regulation.

Court’s Reasoning

The court relied on the Supreme Court’s decision in Jewett v. Commissioner, which clarified that the ‘transfer’ for gift tax purposes occurs when the interest is created, not when it vests or becomes possessory. The court also interpreted ‘knowledge of the existence of the transfer’ under section 25. 2511-1(c) to mean that the taxpayers had sufficient notice when they were served with the citations in 1957. The court rejected the taxpayers’ argument that they needed more detailed knowledge of the trust’s value and their specific interests before the reasonable time period for disclaiming began. The court emphasized the broad application of the gift tax, noting that disclaimers are indirect gifts and must be timely to avoid taxation. The legislative history of the gift tax was cited to support the court’s interpretation of the regulation, emphasizing the need to prevent estate tax avoidance through inter vivos gifts.

Practical Implications

This decision underscores the importance of timely disclaimers in estate planning. For attorneys and tax professionals, it is crucial to advise clients to disclaim interests promptly upon receiving notice of a transfer, even if the interest is contingent. The case also highlights the need to understand the federal definition of ‘reasonable time’ for disclaimers, which may differ from state law. Practitioners should be aware that the IRS may challenge late disclaimers as taxable gifts, and clients may need to seek professional advice upon receiving notice of a trust interest. This ruling has been influential in subsequent cases, reinforcing the principle that the gift tax applies broadly to disclaimers and that the timing of knowledge is critical.

