***Estate of D'Ambrosio v. Commissioner, 105 T. C. 282 (1995)***

The value of property transferred with a retained life interest must be included in the gross estate unless the transfer is for adequate and full consideration, measured against the value of the entire property, not just the remainder interest.

**Summary**

Estate of D'Ambrosio concerned whether the decedent's estate tax should include the value of preferred stock in which she retained a life interest. The decedent sold the remainder interest in 470 shares of Vaparo stock to the company for $1,324,014 but retained the income interest until her death. The Tax Court held that the estate must include the stock's value at death, less the annuity received, because the decedent did not receive adequate consideration for the full value of the stock. This case clarified that for estate tax purposes, the consideration must be measured against the entire property value, not merely the remainder interest.

**Facts**

Decedent Rose D'Ambrosio owned shares in Vaparo, Inc. , which was recapitalized into three classes of stock. In 1987, at age 80, she sold the remainder interest in 470 shares of preferred stock to Vaparo for $1,324,014 while retaining the income interest for life. The total value of the shares was $2,350,000 at the time of the sale. She received annuity payments totaling $592,078 before her death in 1990. The Commissioner determined a deficiency in estate tax, arguing the estate should include the value of the stock less the annuity payments.

**Procedural History**

The case was submitted to the Tax Court without trial. The estate petitioned the court to redetermine the Commissioner's determination of an $842,391 deficiency in federal estate tax. The Commissioner conceded that the maximum includable value was $2,350,000 less the $1,324,014 annuity value. The Tax Court then ruled on the application of section 2036(a) of the Internal Revenue Code.

**Issue(s)**

1. Whether the value of 470 shares of Vaparo preferred stock, in which the decedent retained a life interest, should be included in her gross estate for federal estate tax purposes?

**Holding**

1. Yes, because the decedent did not receive adequate and full consideration for the entire value of the property transferred; the consideration was only for the remainder interest, not the full value of the stock.

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## Court’s Reasoning

The court applied section 2036(a) of the Internal Revenue Code, which includes in the gross estate property transferred with a retained life interest unless the transfer was a bona fide sale for adequate and full consideration. The court clarified that the consideration must be measured against the value of the entire property, not just the remainder interest. It cited precedent from Gradow v. United States and Estate of Gregory v. Commissioner, which held that the consideration must be adequate for the entire property to avoid estate tax inclusion. The court rejected the estate’s argument that selling the remainder interest for its actuarial value was sufficient, emphasizing that Congress intended to prevent easy avoidance of estate tax through such transactions. The court also noted that the decedent’s transfer was akin to a testamentary disposition, made late in life to a family-owned corporation, further justifying inclusion in the gross estate.

## Practical Implications

This decision impacts estate planning strategies involving transfers with retained life interests. It underscores that for such transfers to avoid estate tax, the consideration must be adequate for the entire value of the property, not just the remainder interest. Practitioners must consider this when advising clients on estate planning, ensuring that any transfer of property with a retained interest is structured to meet the full consideration requirement. The ruling also affects how similar cases are analyzed, emphasizing the need to evaluate the entire property value against the consideration received. This case has been cited in subsequent cases dealing with similar issues, reinforcing its importance in estate tax law.

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