

§ 20.2037-1

26 CFR Ch. I (4-1-02 Edition)

person who was in fact enjoying the income at the time of the decedent's death. In such a case, the amount to be included in the decedent's gross estate under this section does not include the value of the outstanding income interest of the other person. It may be noted that if the other person predeceased the decedent, the reservation by the decedent may be considered to be either for his life, or for a period which does not in fact end before his death.

(2) The "use, possession, right to the income, or other enjoyment of the transferred property" is considered as having been retained by or reserved to the decedent to the extent that the use, possession, right to the income, or other enjoyment is to be applied toward the discharge of a legal obligation of the decedent, or otherwise for his pecuniary benefit. The term "legal obligation" includes a legal obligation to support a dependent during the decedent's lifetime.

(3) The phrase "right * * * to designate the person or persons who shall possess or enjoy the transferred property or the income therefrom" includes a reserved power to designate the person or persons to receive the income from the transferred property, or to possess or enjoy nonincome-producing property, during the decedent's life or during any other period described in paragraph (a) of this section. With respect to such a power, it is immaterial (i) whether the power was exercisable alone or only in conjunction with another person or persons, whether or not having an adverse interest; (ii) in what capacity the power was exercisable by the decedent or by another person or persons in conjunction with the decedent; and (iii) whether the exercise of the power was subject to a contingency beyond the decedent's control which did not occur before his death (e.g., the death of another person during the decedent's lifetime). The phrase, however, does not include a power over the transferred property itself which does not affect the enjoyment of the income received or earned during the decedent's life. (See, however, section 2038 for the inclusion of property in the gross estate on account of such a power.) Nor does the phrase apply to a power held solely by a person other

than the decedent. But, for example, if the decedent reserved the unrestricted power to remove or discharge a trustee at any time and appoint himself as trustee, the decedent is considered as having the powers of the trustee.

[T.D. 6296, 23 FR 4529, June 24, 1958, as amended by T.D. 6501, 25 FR 10869, Nov. 16, 1960]

§ 20.2037-1 Transfers taking effect at death.

(a) *In general.* A decedent's gross estate includes under section 2037 the value of any interest in property transferred by the decedent after September 7, 1916, whether in trust or otherwise, except to the extent that the transfer was for an adequate and full consideration in money or money's worth (see § 20.2043-1), if—

(1) Possession or enjoyment of the property could, through ownership of the interest, have been obtained only by surviving the decedent,

(2) The decedent had retained a possibility (referred to in this section as a "reversionary interest") that the property, other than the income alone, would return to the decedent or his estate or would be subject to a power of disposition by him, and

(3) The value of the reversionary interest immediately before the decedent's death exceeded 5 percent of the value of the entire property.

However, if the transfer was made before October 8, 1949, section 2037 is applicable only if the reversionary interest arose by the express terms of the instrument of transfer and not by operation of law (see paragraph (f) of this section). See also paragraph (g) of this section with respect to transfers made between November 11, 1935, and January 29, 1940. The provisions of section 2037 do not apply to transfers made before September 8, 1916.

(b) *Condition of survivorship.* As indicated in paragraph (a) of this section, the value of an interest in transferred property is not included in a decedent's gross estate under section 2037 unless possession or enjoyment of the property could, through ownership of such interest, have been obtained only by surviving the decedent. Thus, property is not included in the decedent's gross

estate if, immediately before the decedent's death, possession or enjoyment of the property could have been obtained by any beneficiary either by surviving the decedent or through the occurrence of some other event such as the expiration of a term of years. However, if a consideration of the terms and circumstances of the transfer as a whole indicates that the "other event" is unreal and if the death of the decedent does, in fact, occur before the "other event", the beneficiary will be considered able to possess or enjoy the property only by surviving the decedent. Notwithstanding the foregoing, an interest in transferred property is not includible in a decedent's gross estate under section 2037 if possession or enjoyment of the property could have been obtained by any beneficiary during the decedent's life through the exercise of a general power of appointment (as defined in section 2041) which in fact was exercisable immediately before the decedent's death. See examples (5) and (6) in paragraph (e) of this section.

(c) *Retention of reversionary interest.*

(1) As indicated in paragraph (a) of this section, the value of an interest in transferred property is not included in a decedent's gross estate under section 2037 unless the decedent had retained a reversionary interest in the property, and the value of the reversionary interest immediately before the death of the decedent exceeded 5 percent of the value of the property.

(2) For purposes of section 2037, the term "reversionary interest" includes a possibility that property transferred by the decedent may return to him or his estate and a possibility that property transferred by the decedent may become subject to a power of disposition by him. The term is not used in a technical sense, but has reference to any reserved right under which the transferred property shall or may be returned to the grantor. Thus, it encompasses an interest arising either by the express terms of the instrument of transfer or by operation of law. (See, however, paragraph (f) of this section with respect to transfers made before October 8, 1949.) The term "reversionary interest" does not include rights to income only, such as the

right to receive the income from a trust after the death of another person. (However, see section 2036 for the inclusion of property in the gross estate on account of such rights.) Nor does the term "reversionary interest" include the possibility that the decedent during his lifetime might have received back an interest in transferred property by inheritance through the estate of another person. Similarly, a statutory right of a spouse to receive a portion of whatever estate a decedent may leave at the time of his death is not a "reversionary interest".

(3) For purposes of this section, the value of the decedent's reversionary interest is computed as of the moment immediately before his death, without regard to whether or not the executor elects the alternate valuation method under section 2032 and without regard to the fact of the decedent's death. The value is ascertained in accordance with recognized valuation principles for determining the value for estate tax purposes of future or conditional interests in property. (See §§ 20.2031-1, 20.2031-7, and 20.2031-9). For example, if the decedent's reversionary interest was subject to an outstanding life estate in his wife, his interest is valued according to the actuarial rules set forth in § 20.2031-7. On the other hand, if the decedent's reversionary interest was contingent on the death of his wife without issue surviving and if it cannot be shown that his wife is incapable of having issue (so that his interest is not subject to valuation according to the actuarial rules in § 20.2031-7), his interest is valued according to the general rules set forth in § 20.2031-1. A possibility that the decedent may be able to dispose of property under certain conditions is considered to have the same value as a right of the decedent to the return of the property under those same conditions.

(4) In order to determine whether or not the decedent retained a reversionary interest in transferred property of a value in excess of 5 percent, the value of the reversionary interest is compared with the value of the transferred property, including interests therein which are not dependent upon survivorship of the decedent. For example, assume that the decedent, A,

transferred property in trust with the income payable to B for life and with the remainder payable to C if A predeceases B, but with the property to revert to A if B predeceases A. Assume further that A does, in fact, predecease B. The value of A's reversionary interest immediately before his death is compared with the value of the trust corpus, without deduction of the value of B's outstanding life estate. If, in the above example, A had retained a reversionary interest in one-half only of the trust corpus, the value of his reversionary interest would be compared with the value of one-half of the trust corpus, again without deduction of any part of the value of B's outstanding life estate.

(d) *Transfers partly taking effect at death.* If separate interests in property are transferred to one or more beneficiaries, paragraphs (a) to (c) of this section are to be separately applied with respect to each interest. For example, assume that the decedent transferred an interest in Blackacre to A which could be possessed or enjoyed only by surviving the decedent, and that the decedent transferred an interest in Blackacre to B which could be possessed or enjoyed only on the occurrence of some event unrelated to the decedent's death. Assume further that the decedent retained a reversionary interest in Blackacre of a value in excess of 5 percent. Only the value of the interest transferred to A is includible in the decedent's gross estate. Similar results would obtain if possession or enjoyment of the entire property could have been obtained only by surviving the decedent, but the decedent had retained a reversionary interest in a part only of such property.

(e) *Examples.* The provisions of paragraphs (a) to (d) of this section may be further illustrated by the following examples. It is assumed that the transfers were made on or after October 8, 1949; for the significance of this date, see paragraphs (f) and (g) of this section:

Example (1). The decedent transferred property in trust with the income payable to his wife for life and, at her death, remainder to the decedent's then surviving children, or if none, to the decedent or his estate. Since each beneficiary can possess or enjoy the

property without surviving the decedent, no part of the property is includible in the decedent's gross estate under section 2037, regardless of the value of the decedent's reversionary interest. (However, see section 2033 for inclusion of the value of the reversionary interest in the decedent's gross estate.)

Example (2). The decedent transferred property in trust with the income to be accumulated for the decedent's life, and at his death, principal and accumulated income to be paid to the decedent's then surviving issue, or, if none, to A or A's estate. Since the decedent retained no reversionary interest in the property, no part of the property is includible in the decedent's gross estate, even though possession or enjoyment of the property could be obtained by the issue only by surviving the decedent.

Example (3). The decedent transferred property in trust with the income payable to his wife for life and with the remainder payable to the decedent or, if he is not living at his wife's death, to his daughter or her estate. The daughter cannot obtain possession or enjoyment of the property without surviving the decedent. Therefore, if the decedent's reversionary interest immediately before his death exceeded 5 percent of the value of the property, the value of the property, less the value of the wife's outstanding life estate, is includible in the decedent's gross estate.

Example (4). The decedent transferred property in trust with the income payable to his wife for life and with the remainder payable to his son or, if the son is not living at the wife's death, to the decedent or, if the decedent is not then living, to X or X's estate. Assume that the decedent was survived by his wife, his son, and X. Only X cannot obtain possession or enjoyment of the property without surviving the decedent. Therefore, if the decedent's reversionary interest immediately before his death exceeded 5 percent of the value of the property, the value of X's remainder interest (with reference to the time immediately after the decedent's death) is includible in the decedent's gross estate.

Example (5). The decedent transferred property in trust with the income to be accumulated for a period of 20 years or until the decedent's prior death, at which time the principal and accumulated income was to be paid to the decedent's son if then surviving. Assume that the decedent does, in fact, die before the expiration of the 20-year period. If, at the time of the transfer, the decedent was 30 years of age, in good health, etc., the son will be considered able to possess or enjoy the property without surviving the decedent. If, on the other hand, the decedent was 70 years of age at the time of the transfer, the son will not be considered able to possess or enjoy the property without surviving the decedent. In this latter case, if the value of the decedent's reversionary interest (arising by operation of law) immediately before his

death exceeded 5 percent of the value of the property, the value of the property is includible in the decedent's gross estate.

Example (6). The decedent transferred property in trust with the income to be accumulated for his life and, at his death, the principal and accumulated income to be paid to the decedent's then surviving children. The decedent's wife was given the unrestricted power to alter, amend, or revoke the trust. Assume that the wife survived the decedent but did not, in fact, exercise her power during the decedent's lifetime. Since possession or enjoyment of the property could have been obtained by the wife during the decedent's lifetime under the exercise of a general power of appointment, which was, in fact, exercisable immediately before the decedent's death, no part of the property is includible in the decedent's gross estate.

(f) *Transfers made before October 8, 1949.* (1) Notwithstanding any provisions to the contrary contained in paragraphs (a) to (e) of this section, the value of an interest in property transferred by a decedent before October 8, 1949, is included in his gross estate under section 2037 only if the decedent's reversionary interest arose by the express terms of the instrument and not by operation of law. For example, assume that the decedent, on January 1, 1947, transferred property in trust with the income payable to his wife for the decedent's life, and, at his death, remainder to his then surviving descendants. Since no provision was made for the contingency that no descendants of the decedent might survive him, a reversion to the decedent's estate existed by operation of law. The descendants cannot obtain possession or enjoyment of the property without surviving the decedent. However, since the decedent's reversionary interest arose by operation of law, no part of the property is includible in the decedent's gross estate under section 2037. If, in the above example, the transfer had been made on or after October 8, 1949, and if the decedent's reversionary interest immediately before his death exceeded 5 percent of the value of the property, the value of the property would be includible in the decedent's gross estate.

(2) The decedent's reversionary interest will be considered to have arisen by the express terms of the instrument of transfer and not by operation of law if the instrument contains an express dis-

position which affirmatively creates the reversionary interest, even though the terms of the disposition do not refer to the decedent or his estate, as such. For example, where the disposition is, in its terms, to the next of kin of the decedent and such a disposition, under applicable local law, constitute a reversionary interest in the decedent's estate, the decedent's reversionary interest will be considered to have arisen by the express terms of the instrument of transfer and not by operation of law.

(g) *Transfers made after November 11, 1935, and before January 29, 1940.* The provisions of paragraphs (a) to (f) of this section are fully applicable to transfers made after November 11, 1935 (the date on which the Supreme Court decided *Helvering v. St. Louis Union Trust Co.* (296 U.S. 39) and *Becker v. St. Louis Union Trust Co.* (296 U.S. 48)), and before January 29, 1940 (the date on which the Supreme Court decided *Helvering v. Hallock* and companion cases (309 U.S. 106)), except that the value of an interest in property transferred between these dates is not included in a decedent's gross estate under section 2037 if—

(1) The Commissioner, whose determination shall be final, determines that the transfer is classifiable with the transfers involved in the *St. Louis Union Trust Co.* cases, rather than with the transfer involved in the case of *Klein v. United States* (283 U.S. 231), previously decided by the Supreme Court, and

(2) The transfer shall have been finally treated for all gift tax purposes, both as to the calendar year of the transfer and as to subsequent calendar years, as a gift in an amount measured by the value of the property undiminished by reason of a provision in the instrument of transfer by which the property, in whole or in part, is to revert to the decedent should he survive the donee or another person, or the reversion is conditioned upon some other contingency terminable by the decedent's death.

§ 20.2038-1 Revocable transfers.

(a) *In general.* A decedent's gross estate includes under section 2038 the value of any interest in property transferred by the decedent, whether in