SUPREME COURT OF MONTANA

In re Harper's Estate

218 P.2d 927 (Mont. 1950) · No. No. 8939 · Decided May 25, 1950

SUMMARY

The Montana Supreme Court held that proceeds from endowment insurance policies left with the insurer at interest after maturity were not annuity proceeds subject to the insurance exemption from inheritance tax. Because the principal remained intact and the arrangement functioned as an investment at interest, the proceeds were transfers intended to take effect at or after death and were taxable as part of the decedent's estate. The court reversed and remanded for inclusion of the proceeds in the estate and assessment of the tax.

CASE DETAILS

COURT	Supreme Court of Montana
WRITING FOR THE COURT	Metcalf; Adair; Angstman; Freebourn; Bottomly
JURISDICTION	Montana
DECIDED	May 25, 1950
DOCKET	No. 8939
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	The State appealed from an order of the district court determining inheritance tax and excluding proceeds from three matured endowment insurance policies from the decedent's taxable estate.
STANDARD OF REVIEW	The court reviewed the legal classification of the insurance proceeds and the resulting inheritance-tax determination de novo.
PRECEDENTIAL VALUE	Published Montana Supreme Court opinion; precedential.
PARTIES	State v. Bowman

TOPICS

probate procedure · insurance · tax · statutory interpretation

PRACTICE AREAS

Probate · Inheritance taxation · Insurance

QUESTIONS PRESENTED

1. Whether proceeds of life insurance policies that matured as endowments and were left with the insurer at a fixed rate of interest under an optional settlement provision qualified for the insurance exemption under R.C.M. 1947, section 91-4406.
2. Whether the retained proceeds constituted annuities or instead an investment at interest and a transfer intended to take effect at or after death.

HOLDINGS

1. Proceeds from endowment policies that had matured during the insured's lifetime and were then left with the insurance company at interest did not qualify for the insurance exemption under R.C.M. 1947, section 91-4406.
2. The supplementary contracts were not annuities because they did not provide periodic payments that combined a return of principal and interest or systematically liquidated the principal.
3. Because the proceeds were an investment at interest during Harper's lifetime and passed to the contingent beneficiaries only upon her death, they were transfers intended to take effect at or after death and were subject to inheritance tax.

KEY QUOTATIONS

> *"The return of some part of the principal investment is the characteristic that distinguishes an interest contract from an annuity contract."* (218 P.2d at 928)

> *"The payment for the detention of the money was interest and not an annuity."* (218 P.2d at 928)

> *"The life insurance part of the contract is at an end."* (218 P.2d at 929)

FACTUAL BACKGROUND

Catherine Harper held three endowment insurance contracts that matured during her lifetime. Under an optional settlement provision, she left the maturity proceeds with the insurance company, which paid her fixed interest while preserving the principal and permitting withdrawal at her pleasure. After Harper's death, the principal and accrued interest were paid to contingent beneficiaries, and the State sought to include the proceeds in the taxable estate.

PROCEDURAL HISTORY

The administratrix omitted the proceeds of three supplementary insurance contracts from the final report and petition for determination of inheritance tax. The State objected, but the trial court overruled the objections and refused to tax the proceeds. The Supreme Court of Montana reversed and remanded for inclusion of the proceeds in the estate and assessment of the tax.

DISPOSITION

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reversed_and_remanded
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REMAND INSTRUCTIONS

Include the proceeds of the three supplementary insurance contracts in the decedent's estate and assess the inheritance tax accordingly.

CASES CITED

- In re Fligman's Estate, 113 Mont. 505, 129 P.2d 627
- Igleheart v. Commissioner of Internal Revenue, 174 F.2d 605, 607 (7th Cir. 1949)
- Commissioner of Internal Revenue v. Meyer, 139 F.2d 256 (6th Cir. 1943)
- Blum v. Higgins, 57 F. Supp. 140 (D.C.)
- Blum v. Higgins, 150 F.2d 471 (2d Cir. 1945), 160 A.L.R. 1093