1 T.C. 575 (1943)

Trust income used for the maintenance, support, or welfare of a grantor's minor children is considered part of the grantor's gross income, even if the income is distributed to a guardian and not directly used for support.

Summary

Seymour H. Knox created a trust for the benefit of his minor children, with the trustees having the discretion to use the income for their maintenance, support, and welfare. The trust income was distributed to Knox as the children's guardian but was primarily accumulated. The Commissioner of Internal Revenue determined that the trust income was taxable to Knox. The Tax Court upheld the Commissioner's determination, reasoning that the potential use of the trust income to fulfill Knox's parental obligations made it taxable to him, regardless of whether it was actually used for that purpose. This decision reinforces the principle that a grantor cannot avoid income tax by establishing a trust that could relieve them of their legal obligations.

Facts

Seymour H. Knox created a trust in 1934, naming himself and Marine Trust Co. of Buffalo as trustees. The trust document stated the grantor's desire to provide for the maintenance, support, and welfare of his children. The trustees were directed to pay the net income to or for the benefit of Knox's children. The trustees had the discretion to accumulate income for the children during their minority. Knox was appointed as the children's guardian in 1935. The trust income was distributed to Knox as guardian but was mostly accumulated. Knox did not include the trust income in his personal income tax return.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against Knox for failing to include the trust income in his personal income. Knox petitioned the Tax Court for a redetermination of the deficiency. The Tax Court upheld the Commissioner's determination, finding the trust income taxable to Knox. The Tax Court relied on the Supreme Court's decision in *Douglas v. Willcuts* and *Helvering v. Stuart*.

Issue(s)

Whether the income from a trust created by a grantor for the maintenance, support, and welfare of his minor children is includible in the grantor's gross income, even if the income is distributed to a guardian and not directly used for their support.

Holding

Yes, because the trustees had the discretion to use the trust income to satisfy the

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grantor’s legal obligation to support his children; the income is taxable to the grantor under Section 167(a)(2) of the Revenue Act of 1936, regardless of whether it was actually used for their support.

Court’s Reasoning

The Tax Court relied heavily on the Supreme Court’s decision in *Helvering v. Stuart*, stating,

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