1 T.C. 821 (1943)

A taxpayer can deduct life insurance premium payments as a charitable contribution if the policy is irrevocably assigned to a trust established and operated exclusively for charitable purposes, even if the trust has not yet made distributions.

Summary

Hunton sought to deduct life insurance premiums paid to a trust as a charitable contribution. The trust, established to benefit the poor and sick in Richmond, VA, held an insurance policy on Hunton's life, with the proceeds to be used for charitable purposes. The Commissioner disallowed the deduction, arguing the trust was not yet operating for charitable purposes and was essentially a private charity due to Hunton's wife's right to designate beneficiaries. The Tax Court held that the trust was organized and operated exclusively for charitable purposes, allowing the deduction. The Court reasoned that the trust's purpose and structure met the statutory requirements, and the wife's power to designate recipients did not negate its charitable character.

Facts

In 1938, Hunton created an irrevocable trust with a bank and his wife as trustees. The trust held a $25,000 life insurance policy on Hunton. The trust agreement directed the trustees to use the net income from the insurance proceeds to relieve the poor, sick, and suffering in Richmond, VA, either directly or through other charitable organizations. Hunton's wife had the exclusive right to designate the income recipients during her lifetime. Hunton paid a $639.50 premium on the life insurance policy in 1939 and claimed it as a charitable deduction on his income tax return.

Procedural History

The Commissioner of Internal Revenue disallowed Hunton's deduction for the life insurance premium payment, resulting in a deficiency assessment. Hunton petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the premium paid by Hunton on the life insurance policy held by the trust constitutes a deductible charitable contribution under Section 23(o)(2) of the Revenue Act of 1938, considering that the trust had not yet made charitable distributions and the donor's wife had the right to designate income recipients.

Holding

Yes, because the trust was organized and operated exclusively for charitable purposes, and the power of Hunton's wife to designate income recipients did not negate its charitable character.

Court's Reasoning

The Tax Court found that the trust was validly established and the insurance policy was gifted to it. The Court distinguished the case from those involving trusts for the benefit of blood relatives or specific individuals. It emphasized that the trust in question was indefinite regarding specific beneficiaries, with a broad class of persons designated to receive its benefits, characteristic of a public trust. The Court cited *William T. Bruckner et al., Trustees, 20 B.T.A. 419*, noting that there may be an interval between the creation of a trust and the actual dispensing of charity. According to the Court, the qualifying words "organized and operated" require the trust's operations at all stages to carry out its exclusively charitable purpose. The fact that the petitioner's wife could designate recipients did not invalidate the charitable nature of the trust. The court noted, "The charitable destination of its income is the test rather than the immediate manner of its receipt."

Practical Implications

This case illustrates that taxpayers can obtain a charitable deduction for contributions made to a trust funded by life insurance, even if the trust is not currently distributing funds, provided the trust is irrevocably established and operated for exclusively charitable purposes. The case highlights the importance of properly structuring charitable trusts to ensure deductibility. It also clarifies that the grantor's relatives can be involved in selecting beneficiaries of the charitable trust without automatically disqualifying the trust's charitable status, as long as the class of potential beneficiaries is broad and charitable. Later cases applying Hunton focus on the requirement that the trust be "organized and operated" exclusively for charitable purposes, meaning its governing documents and activities must reflect a genuine commitment to charitable goals.

