2 T.C. 1128 (1943)

A beneficiary of a trust can be taxed on the trust's income under Section 22(a) of the Internal Revenue Code if they possess substantial control over the trust corpus and income, even if they do not actually receive the income.

Summary

Mallinckrodt was the beneficiary and co-trustee of a trust created by his father. He had the power to request all trust income (except $10,000 annually to his wife), broad management powers, the ability to terminate the trust with his co-trustee's consent, and a testamentary power of appointment. Although Mallinckrodt didn't request all the income, the Commissioner argued it was taxable to him. The Tax Court agreed, holding that Mallinckrodt's control over the trust assets and income made him the de facto owner for tax purposes under Section 22(a), regardless of whether he actually received the funds. This case highlights the importance of control over property in determining tax liability.

Facts

- Edward Mallinckrodt, Sr. created a trust (Trust No. 3660) with his son, Edward Mallinckrodt, Jr. (petitioner), and St. Louis Union Trust Co. as co-trustees.
- The trust instrument granted broad powers to the trustees, including managing and disposing of trust assets as if they were absolute owners.
- After certain initial obligations were met, the trust directed $10,000 of annual income to the petitioner's wife.
- The remaining net income was to be paid to the petitioner upon his request; any unrequested income was to be added to the trust principal.
- The petitioner had a general testamentary power of appointment over the trust property and could appoint his successor trustee.
- The trustees could terminate the trust during the petitioner's lifetime with written consent, transferring all assets to him.
- During the tax years in question (1934-1937), the petitioner did not request all available income, and the unrequested amounts were added to the trust corpus.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioner's income tax for 1934-1937, arguing that the undistributed trust income was taxable to him. The Tax Court reviewed the Commissioner's determination.

Issue(s)

1. Whether undistributed income from Trust No. 3660 was taxable to the petitioner despite not being directly received by him.

Holding

1. Yes, because the petitioner possessed substantial control over the trust corpus and its income, making him the de facto owner for tax purposes under Section 22(a) of the Internal Revenue Code.

Court's Reasoning

The court reasoned that while Sections 161 and 162 generally tax trust income to the trust or its beneficiaries, Section 22(a) defines gross income broadly to include "gains, profits, and income derived… from any source whatever." Citing *Helvering v. Clifford, 309 U.S. 331 (1940)*, the court emphasized that dominion and control over property determine taxability, regardless of technical title. The court stated, "taxation is not so much concerned with the refinements of title as it is with actual command over the property taxed – the actual benefit for which the tax is paid." Because the petitioner could request the income, manage the trust, and ultimately dispose of the trust assets via testamentary power of appointment, he held sufficient incidents of ownership to be taxed on the income, whether or not he chose to receive it. The court emphasized that his powers were not merely

