3 T.C. 231 (1944)

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A beneficiary receiving income from a trust is taxed on that income if the trust instrument directs distribution of net income, even if the instrument also allows for potential corpus invasion to ensure a minimum income level, unless the payments constitute a sum certain payable at all events, thus resembling an annuity.

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Summary

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Belle Goldstine Frankel, a widow, elected to take under her deceased husband's will, which created a testamentary trust primarily for her benefit. The trust directed the trustees to pay her the net income, with a provision to supplement from the principal if her total annual income (including income from her own property) fell below $20,000, subject to her request. The Tax Court held that the amounts she received were taxable income, as she was an income beneficiary, not a recipient of an annuity. This decision aligned with the principle established in *Helvering v. Butterworth*, distinguishing it from *Helvering v. Pardee*, where payments were considered a charge against the entire estate payable at all events.

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Facts

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Nathan Frankel's will established a trust with his wife, Belle, as a primary beneficiary. The trust directed the trustees to pay his sister $100 per month and then pay the remaining net income to Belle in installments as she requested. A clause stipulated that if Belle's total annual income (from the trust and her own property) was less than $20,000, the trustees should augment the payment from the trust's principal, if she requested it, to reach the $20,000 threshold. Belle reported income from the trust on her tax returns, but later claimed she was due a refund, arguing the payments should be treated as a non-taxable annuity.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Belle Frankel's income tax for 1938 and 1939. Frankel petitioned the Tax Court, alleging overpayment of taxes. The Tax Court addressed whether the payments from the testamentary trust should be included in Frankel's gross income. The Tax Court ruled in favor of the Commissioner, determining the payments were taxable income to Frankel as a trust beneficiary.

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Issue(s)

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Whether payments made to a widow from a testamentary trust, which directs distribution of net income but allows for potential invasion of corpus to guarantee a minimum annual income if requested, constitute taxable income to the beneficiary or payments from an annuity and thus are not taxable income.

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Holding

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Yes, because the trust instrument primarily directed the distribution of net income to the beneficiary, and the provision for corpus invasion was contingent and never utilized, the payments constitute taxable income as a trust beneficiary and not payments from an annuity.

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Court's Reasoning

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The Tax Court distinguished this case from *Helvering v. Pardee*, where the widow received an annuity payable at all events, making her an ordinary legatee. Here, the court emphasized that the will directed the trustees to distribute the

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