David Small, 3 T.C. 1142 (1944)

The grantor of a long-term trust is taxable on the trust's income when the grantor retains substantial control over both the trust corpus and the distribution of income, particularly when the beneficiaries are members of the grantor's immediate family, even if the trust is not a short-term trust.

Summary

David Small created trusts for his children and grandchildren, naming himself as trustee. The trust instruments granted Small broad administrative powers over the trust corpus and discretion over income distribution. The Tax Court held that Small was taxable on the trust income. Even though the trusts were long-term, Small's extensive control over the corpus and the distribution of income to his immediate family brought the trusts within the ambit of the Helvering v. Clifford doctrine. The court emphasized that the "direct satisfactions of pater familias" were undiminished, justifying taxation to the settlor.

Facts

David Small, a wealthy individual, created several long-term trusts for the benefit of his three children and seven grandchildren. Small named himself as the trustee of each trust. The trust instruments provided Small with broad discretion in managing the trust assets. He also had the power to distribute income to the beneficiaries at his sole discretion, or to accumulate it within the trust. Small at all times relevant had a net worth exceeding one million dollars and income exceeding his normal needs.

Procedural History

The Commissioner of Internal Revenue assessed deficiencies against Small for income taxes, arguing that the income from the trusts should be taxed to him. Small petitioned the Tax Court for a redetermination of the deficiencies. The Tax Court reviewed the terms of the trust agreements and the extent of control retained by Small as trustee.

Issue(s)

Whether the income of the long-term trusts, for which the grantor retained broad administrative powers over the corpus and discretionary power over income distribution to family members, is taxable to the grantor under the principles of Helvering v. Clifford, despite the long-term nature of the trusts.

Holding

Yes, because the grantor retained substantial control over both the trust corpus and the distribution of income to his immediate family, making the trust income taxable

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to him despite the trusts being long-term.

Court’s Reasoning

The Tax Court relied on the principle established in *Helvering v. Clifford*, which holds that a grantor can be taxed on trust income if they retain substantial dominion and control over the trust. The court acknowledged that the trusts in this case were long-term, unlike the short-term trust in *Clifford*. However, the court stated that in long-term trusts, the factor of control is even more important. The court distinguished cases cited by the petitioner, emphasizing that Small possessed broad administrative powers over the trust corpus, coupled with the discretion to distribute income to his children and grandchildren. This control over the purse strings, combined with the family relationship, allowed Small to continue to enjoy the

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