39 B.T.A. 910 (1939)

Trust income is taxable to the beneficiary, not the grantor, when the beneficiary independently decides to use that income to pay life insurance premiums on a policy insuring the grantor's life, even if the grantor approves of that decision.

Summary

The Board of Tax Appeals addressed whether trust income used to pay premiums on the grantor's life insurance policies should be taxed to the grantor or the beneficiary. The grantor established a trust for his wife. She, independently, decided to use income from the trust to pay the premiums, a decision the grantor approved. The Board held that because the decision to use the income to pay premiums was the wife's alone, the income was taxable to her, not the grantor. The Board distinguished this case from situations where the grantor directs the use of trust income.

Facts

The petitioner (grantor) established a trust for the benefit of his wife. The wife proposed to use income from the securities set aside for her in the trust to pay premiums on life insurance policies insuring the petitioner's life. The petitioner approved of this proposal. The Commissioner argued that the trust income used to pay life insurance premiums should be taxed to the petitioner, the grantor of the trust.

Procedural History

The Commissioner determined a deficiency in the petitioner's income tax. The petitioner appealed to the Board of Tax Appeals.

Issue(s)

1. Whether trust income used to pay premiums on the grantor's life insurance policies is taxable to the grantor when the beneficiary independently decides to use the income for that purpose, and the grantor merely approves the decision?

Holding

1. No, because the decision to use the income to pay premiums was the wife's alone, making the income taxable to her, not the grantor.

Court's Reasoning

The Board emphasized that the wife independently decided to use her trust income to pay the premiums. The Board distinguished this case from *Henry A. B. Dunning,*

36 B. T. A. 1222, where the husband