3 T.C. 605 (1944)

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Trust income paid to a beneficiary is not taxable to the grantor, even if the beneficiary independently chooses to use that income to pay premiums on the grantor's life insurance policies, provided the grantor does not control or direct this use.

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Summary

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George F. Booth created a trust for his wife, Minnie, intending for her to accumulate the income. Minnie independently decided to use the trust income to pay premiums on George's life insurance policies. The Commissioner of Internal Revenue argued that the trust income should be taxed to George because it was used to pay his life insurance premiums. The Tax Court held that the trust income was taxable to Minnie, not George, because George did not direct or control her decision to use the funds for insurance premiums, distinguishing this case from situations where the grantor retains control.

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Facts

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In 1935, George F. Booth created an irrevocable trust (the "securities trust") for the benefit of his wife, Minnie. He transferred 2,000 shares of stock to himself as trustee, with income payable to Minnie for life. Later, George established three irrevocable life insurance trusts, assigning existing life insurance policies to them. The trustees of the insurance trusts were instructed not to use funds from George to pay premiums. Minnie, independently, used income she received from the securities trust to pay the premiums on George's life insurance policies held by the insurance trusts.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in George’s income tax for 1938, 1939, and 1940, arguing that the income from the securities trust should be taxed to him because it was used to pay his life insurance premiums. George petitioned the Tax Court for a redetermination of these deficiencies.

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Issue(s)

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Whether the income from the securities trust is taxable to George F. Booth under Section 22(a) or Section 167(a)(3) of the Revenue Act of 1938 and the Internal Revenue Code, given that his wife voluntarily used the income to pay premiums on his life insurance policies.

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Holding

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No, because George did not control or direct his wife’s decision to use the trust income to pay his life insurance premiums. The wife’s decision was independent and voluntary.

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Court’s Reasoning

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The Tax Court emphasized that Minnie’s decision to use the trust income for insurance premiums was her own. The court distinguished this case from *Henry A. B. Dunning, 36 B.T.A. 1222*, where the husband

