Mayer v. Commissioner, 5 T.C. 750 (1945)

A grantor is taxable on trust income under Section 22(a) if they retain substantial control and benefit over the trust, and under Section 167 if trust income is used to pay premiums on life insurance policies on the grantor's life.

Summary

The Tax Court held that the petitioner, Mayer, was taxable on the income of five children's trusts under Section 22(a) of the Internal Revenue Code because he retained significant control over the trusts, including the power to direct distributions and control investments. The court also found Mayer taxable on the income of the Mayer-Dixon trust under Section 167 because the trust was funded by Mayer and used to pay premiums on his life insurance policies. The court determined that Mayer's retained powers and benefits made him the effective owner of the trust income.

Facts

Mayer created five trusts for his children, funded by royalties from a contract with Mesta Machine Co. The trust agreements gave Mayer the right to direct the trustee to use trust income or principal to satisfy his liabilities under a separate agreement, to control distributions of trust income, to terminate the trusts, to control investments, and to direct the trustee in voting stock held by the trusts. Separately, Mayer provided funds to his daughters to establish the Mayer-Dixon trust, which was used to pay premiums on life insurance policies on Mayer's life. Mayer claimed the trust income was taxable to the children and daughters, respectively.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Mayer's income tax for the years 1934 to 1939, arguing that the income from the five children's trusts and the Mayer-Dixon trust was taxable to Mayer. Mayer appealed to the Tax Court, contesting the Commissioner's determination. The Tax Court reviewed the case and rendered its decision based on the presented facts and applicable law.

Issue(s)

1. Whether Mayer is taxable on the income of the five children's trusts under Section 22(a) of the Internal Revenue Code due to his retained interests and powers over the trusts.
2. Whether Mayer is taxable on the income of the Mayer-Dixon trust under Section 167(a)(3) of the Internal Revenue Code because the trust income was used to pay premiums on life insurance policies on his life.

Holding

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1. Yes, Mayer is taxable on the income of the five children's trusts under Section 22(a) because he retained significant control over the trusts, including the power to direct distributions and control investments, making him the effective owner of the trust income.
2. Yes, Mayer is taxable on the income of the Mayer-Dixon trust under Section 167(a)(3) because he provided the funds to establish the trust, and the trust income was used to pay premiums on life insurance policies on his life.

Court's Reasoning

The court reasoned that Mayer's extensive control over the children's trusts, including the ability to direct distributions, control investments, and terminate the trusts, made him the virtual owner of the trust income under the precedent set by *Helvering v. Clifford*. The court emphasized the cumulative effect of these powers, noting that they left little evidence of completed gifts to the children. The court also found that the

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