3 T.C. 943 (1944)

A trust beneficiary is taxed on the trust's net income if the trust instrument primarily designates them as an income beneficiary, even if the instrument also allows for principal payments to supplement income up to a fixed amount upon the beneficiary's request.

Summary

The Horace C. Coleman Trust case addresses whether a trust beneficiary should be taxed on the trust's income when the trust directs the trustee to pay the beneficiary the entire net income annually, and if the income is less than $12,000, to supplement the income with principal up to that amount upon the beneficiary's written request. The Tax Court held that the beneficiary was taxable on the net income of the trust. The trust was entitled to a credit under section 162(b) for the income distributed to the beneficiary, because the trust did not create a fixed annuity payable in all events.

Facts

Horace C. Coleman created a trust in 1934, designating his wife, Helen W. Coleman, as the income beneficiary for life. The trust directed the trustees to pay her the net income annually. If the annual income was less than $12,000, the trustees were instructed to pay her the difference out of the principal upon her written request. Horace C. Coleman died August 11, 1936. In 1938, 1939, and 1940, the trust income was insufficient to pay $12,000 annually, and Helen W. Coleman requested and received the difference from the trust principal.

Procedural History

The Commissioner of Internal Revenue determined deficiencies against both the Horace C. Coleman Trust and Helen W. Coleman. Helen W. Coleman contested the inclusion of the trust distributions in her taxable income, arguing she was the beneficiary of an annuity. The cases were consolidated in the Tax Court.

Issue(s)

Whether the trust created a fixed annuity payable to Helen W. Coleman in all events, such that the trust income was taxable to the trust itself, or whether Helen W. Coleman was primarily an income beneficiary, taxable on the trust's net income distributed to her.

Holding

No, because the trust primarily established Helen W. Coleman as an income beneficiary, with principal distributions contingent upon the income falling below $12,000 and her making a written request. Therefore, Helen W. Coleman is taxable on the trust’s net income distributable to her and the trust is entitled to a deduction under Section 162(b) for the income distributed.

Court’s Reasoning

The court relied on the precedent set in *Belle Goldstine Frankel, 3 T.C. 231*, distinguishing the case from Supreme Court decisions like *Burnet v. Whitehouse* and *Helvering v. Pardee*, which dealt with fixed annuities. The court emphasized that Helen W. Coleman was primarily an income beneficiary. The provision for augmenting payments from principal was contingent upon the trust’s income falling below $12,000 and upon her request. The court stated,

