Abraham v. Commissioner, 3 T.C. 996 (1944)

A grantor is not taxable on trust income accumulated for the benefit of their children after the formal termination of the trust, provided the grantor's control over the funds is limited to investment and reinvestment, without any economic benefit to the grantor.

Summary

This case addresses whether a grantor should be taxed on trust income accumulated after the stated term of the trust ended, where the grantor administered the income as a self-appointed "guardian" for their children. The Tax Court held that the grantor was not taxable on the income because the grantor's powers were limited to investment and reinvestment, with no economic benefit accruing to the grantor. The court emphasized that the children were the clear beneficiaries, and the grantor's limited management role did not constitute ownership under Section 22(a) of the Internal Revenue Code.

Facts

A prior case, Helvering v. Abraham, determined that the grantor of a trust was taxable on the trust's income before its termination date of March 30, 1937. The trust instrument stipulated that upon termination, the trust corpus would revert to the grantor, and the accumulated income would be distributed to the grantor's surviving children in equal shares, to be held by the grantor

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