3 T.C. 1013 (1944)

A trustee’s power to determine what constitutes income versus principal is limited by the trust document; ordinary cash dividends are generally considered income distributable to the beneficiary, despite broad discretionary powers granted to the trustee.

Summary

Caroline Doty challenged the Commissioner of Internal Revenue’s decision to include trust income in her gross income, despite not receiving the distribution. The trust, established by Doty’s mother, held shares of stock and directed the trustee to distribute income quarterly to Doty. However, the trustee classified a dividend as principal, withholding it from Doty. The Tax Court held that the trustee’s discretion was limited, and the ordinary dividend was indeed income that should have been distributed to Doty, thus taxable to her. This case clarifies the boundaries of a trustee’s discretionary power to classify receipts as income or principal, especially when a trust mandates regular income distribution.

Facts

- Aroline Gove established three trusts in her will: A, B, and C.
- Trust B bequeathed shares to a trustee, instructing that the

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