4 T.C. 293 (1944)

Income earned by an estate during administration that is properly paid to a testamentary trust as income, pursuant to the testator's intent and state law, is deductible by the estate under Section 162(c) of the Internal Revenue Code and taxable to the trust.

Summary

The Tax Court addressed whether an estate could deduct income distributed to a testamentary trust. The estate of Robert W. Harwood claimed a deduction for income paid to a trust established under his will. The Commissioner disallowed the deduction, arguing the payment was a distribution of corpus. The court held that the distribution was indeed income properly paid to the trust under Section 162(c) of the Internal Revenue Code, based on the testator's intent, Massachusetts law, and the executors' treatment of the funds. Therefore, the estate was entitled to the deduction.

Facts

Robert W. Harwood died on September 1, 1939, a resident of Massachusetts. His will established a testamentary trust, with his son, Richardson Harwood, and the New England Trust Co. as both executors and trustees. The will directed the trustees to pay Richardson Harwood a portion of the trust's net income annually. In December 1940, the executors paid $57,343.57 to the trustees, representing income received by the executors during that year. Of that amount, $55,460.46 was ordinary income. The estate claimed a deduction for this amount on its 1940 income tax return.

Procedural History

The Commissioner disallowed the estate's deduction, determining the payment to the trust was a distribution of corpus, not income. The Estate petitioned the Tax Court for review of the Commissioner's decision.

Issue(s)

Whether the $55,460.46 distributed by the executors to the trustees of the testamentary trust constitutes an allowable deduction under Section 162(c) of the Internal Revenue Code.

Holding

Yes, because the distribution was income

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