Estate of Burkhartsmeier v. Commissioner, 4 T.C. 92 (1944)

Payments from a trust or estate to a beneficiary are considered annuity payments (not deductible by the trust or estate) if they are payable in all events, even if income is insufficient, whereas payments made solely from income, with no recourse to the corpus if income is insufficient, are considered income distributions deductible by the trust or estate.

Summary

The Estate of Burkhartsmeier and the related testamentary trust sought to deduct $6,000 payments made to a beneficiary, arguing they were income distributions. The will directed the trustee to pay $1,000 per month to the beneficiary from net income, with a provision to invade the corpus if income was insufficient to pay at least $500. The Tax Court distinguished between the $6,000 annuity portion (payable in all events) and any excess amount payable only from income, holding that only the latter could be treated as a deductible income distribution.

Facts

Daniel Burkhartsmeier's will established a testamentary trust to pay $1,000 per month to a beneficiary from net income. If net income was insufficient to pay $500, the trustee was required to invade the corpus to ensure the beneficiary received at least $500 per month. During the estate's administration, the executrix was directed to transfer sufficient assets to the trustee to support the $500 monthly payment and to pay $500 monthly to the beneficiary "for my trustee…out of funds" of the estate. In 1940, the executrix paid $6,000 to herself as an individual (the beneficiary), and the trustee distributed an additional $5,000. The estate and trust both sought to deduct $6,000, arguing it was a current distribution of income.

Procedural History

The Commissioner of Internal Revenue disallowed the deductions claimed by both the estate and the trustee. The estate, as a transferee, challenged the deficiency assessment. The trustee also contested the disallowance, claiming an overpayment. The Tax Court consolidated the cases to determine whether the payments were deductible as income distributions or were non-deductible annuity payments.

Issue(s)

1. Whether the $6,000 paid annually to the beneficiary constituted a distribution of income deductible by the estate or trust under I.R.C. § 162(b), (c), or a payment of an annuity, which is not deductible.
2. Whether the estate or the trust was entitled to deduct any distribution of income to the beneficiary.

Holding

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1. No, as to $6,000 per year, because this amount constituted an annuity payable in all events, regardless of the sufficiency of the estate or trust income. Yes, as to amounts paid exceeding $6,000 per year, because those amounts were payable solely from income.
2. The trust was entitled to a deduction of $6,000 from income, because the estate paid the $6,000 to the beneficiary on behalf of the trustee.

Court’s Reasoning

The Tax Court distinguished between the portion of the annual payment guaranteed by the will ($6,000) and any additional amount payable only from income. Citing *Helvering v. Pardee*, 290 U.S. 365 (1933), the court reasoned that because the will mandated payment of $500 per month ($6,000 annually) even if the corpus had to be invaded, this portion constituted a non-deductible annuity. The court distinguished *Frankel v. Commissioner*, 3 T.C. 231 (1944), because in that case, the payment from the corpus was contingent on a request from the beneficiary, unlike the Burkhartsmeier will which provided that $6,000 was “payable at all events.” Amounts exceeding $6,000, however, were payable only from income and thus, if paid, would be deductible as income distributions. The court reasoned that the estate paid the $6,000 to the beneficiary

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