Warren H. Corning v. Commissioner, 24 T.C. 907 (1955)

A grantor is taxable on the income of a trust where they retain substantial control over the trust, including the power to designate beneficiaries and control investments, even if the income is initially accumulated rather than distributed.

Summary

The Tax Court addressed whether the income of a trust established by Warren H. Corning was taxable to him under Section 22(a) of the Internal Revenue Code. Corning, as settlor and co-trustee, retained significant control over the trust, including the power to remove the co-trustee, control investments in his company's securities, and designate beneficiaries for the accumulated income. The court held that, despite the initial accumulation requirement, Corning's extensive control warranted taxing the trust income to him, aligning the case more closely with Commissioner v. Buck than Commissioner v. Bateman.

Facts

Warren H. Corning created a trust with himself as co-trustee. The trust held securities of a corporation dominated by Corning. The trust agreement stipulated that income was to be accumulated until 1959, after which it could be distributed. Corning retained the power to remove his co-trustee, who was a close business associate. He also had the power to designate beneficiaries to receive income after 1959 and to determine the ultimate recipients of the trust corpus.

Procedural History

The Commissioner of Internal Revenue determined that the income from the trust was taxable to Warren H. Corning. Corning petitioned the Tax Court, arguing that because the income was accumulated during the tax year, he did not have sufficient control to be considered the owner for tax purposes.

Issue(s)

1. Whether the income of the trust established by Warren H. Corning is taxable to him under Section 22(a) of the Internal Revenue Code, given his retained powers and the initial accumulation requirement.

Holding

1. Yes, because Corning retained substantial control over the trust, including the power to designate beneficiaries, remove the co-trustee, and control investments, making him the virtual owner of the trust income for tax purposes.

Court's Reasoning

The court distinguished this case from *Commissioner v. Bateman*, where the settlor had less control. The court emphasized that Corning's powers allowed him to determine who would benefit from the trust, for how long, and in what amounts. This level of control, combined with the fact that the trust held securities of a company he controlled, led the court to conclude that Corning was essentially using the trust as a vehicle to accumulate wealth while avoiding taxes. The court stated, "The net effect of the arrangement here is that petitioner devoted securities in a business controlled by him to a trust controlled by him for the purpose of accumulating a fund which will ultimately go to such persons as he may decide upon…such accumulation to be made without the payment of those taxes which would have been paid if he had himself made the accumulations without the benefit of the trust device." The court found that Corning's control was so pervasive that he should be treated as the owner of the trust income under Section 22(a) and the principles of *Helvering v. Clifford*.

Practical Implications

This case illustrates that the taxability of trust income to the grantor hinges on the degree of control retained by the grantor, not merely on whether the income is currently distributed or accumulated. Attorneys drafting trust agreements must carefully consider the grantor's retained powers, as extensive control can lead to the grantor being taxed on the trust's income. The case serves as a reminder that the substance of the trust arrangement, rather than its form, will determine its tax consequences. Later cases have cited *Corning* to emphasize the importance of considering the grantor's overall dominion and control when determining the taxability of trust income.

