5 T.C. 554 (1945)

The determination of whether a trust instrument creates a single trust with multiple beneficiaries or multiple separate trusts hinges on the settlor's intent as discernible from the entire document.

Summary

Louise Kohtz established a trust, directing the trustee to divide the assets into three equal shares for her three children, each share to be held in trust for the respective child's life, with the remainder passing to their descendants. The trustee could manage the assets as a common fund. The Tax Court addressed whether this arrangement created one trust or three separate trusts for tax purposes. The court held that the settlor intended to create three separate trusts, based on the specific directions regarding the division of assets and the treatment of each child's share. The court emphasized the language directing the trustee to divide the trust estate and hold each share separately for each child. The trustee's administrative convenience of managing the assets collectively did not negate the intent to create distinct trusts.

Facts

Louise R. Kohtz executed a trust agreement with Harris Trust & Savings Bank, conveying securities to be held in trust. The trust instrument directed the trustee to:

1. Divide the trust estate into three equal shares, one for each of her children (Elsie, Ida, and John).
2. Hold each share in trust for the respective child, paying the net income to that child for life.
3. Upon a child's request, pay up to 5% of the principal of "the trust estate set aside for such child" annually from that child's share.
4. Upon the death of a child, distribute "the share set aside for such child" to that child's descendants.
5. The trust agreement allowed the trustee to manage the assets as a common fund, without making a physical division, except for distributions.

Procedural History

The trustee filed separate fiduciary income tax returns for each child's share. The Commissioner determined that the trust agreement created a single trust with three beneficiaries and assessed a deficiency. The Kohtz Family Trust petitioned the Tax Court for redetermination of the deficiency.

Issue(s)

Whether the trust agreement created a single trust with three beneficiaries or three separate trusts for federal income tax purposes.

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Holding

No, the trust agreement created three separate trusts because the settlor's intent, as evidenced by the trust document's language, was to establish distinct trusts for each of her children. The Tax Court's decision was *for the petitioner*.

Court's Reasoning

The Tax Court focused on the settlor's intent as the controlling factor. The court observed that the trust agreement specifically directed the trustee to divide the trust estate into three equal shares, holding each share in trust for a specific child. The court stated: "In the first five or six articles of the trust indenture, at least, we discern a pattern or plan that is indicative only of an intent to establish three separate and distinct trusts." The Court reasoned that the authorization to manage the property without physical division did not negate the intent to create separate trusts. The court quoted from *Huntington National Bank*, stating, "If a single trust was intended, the discretionary power here given the trustees would be unnecessary. However, if three separate trusts are provided for, the power to keep the corpus of the separate trusts as a single unit rather than to physically divide the corpus requires specific authorization by the settlor. The grant of discretionary power in the present agreement is indicative of the intention to create separate trusts." The court distinguished cases cited by the Commissioner, noting that in those cases, the language lacked the specific direction to hold each share separately in trust.

Practical Implications

This case underscores the importance of clear and unambiguous language in trust documents to reflect the settlor's intent regarding the creation of single or multiple trusts. Attorneys drafting trust instruments must carefully consider the tax implications of each approach. Specifically, if the goal is to create separate trusts, the document should explicitly direct the division of assets and the separate administration of each share, even if managed under a common fund. Subsequent cases will analyze similar trust documents, weighing the relative strength of language directing separate treatment of shares versus provisions allowing for unified management. This decision provides a clear example of how the Tax Court interprets trust language to determine the settlor's intent, influencing tax liabilities for trusts and their beneficiaries.

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