***5 T.C. 1049 (1945)***

A grantor of a trust is taxable on the portion of the trust income attributable to the principal they contributed if the trust income is used for the support of their minor child, regardless of whether the grantor personally used the funds.

**Summary**

The Tax Court addressed whether a father was taxable on the income from a trust established with assets inherited from his deceased wife, part of which he inherited and part of which went to his son. The trust instrument directed that all income be used for the son's support. The court held that the father was taxable on the portion of the trust income attributable to the assets he contributed because he had the right to receive the income for his son's support, maintenance, and education.

**Facts**

Frank E. Joseph's wife, Adele, died intestate, leaving a son, Frank Jr. Under Ohio law, Frank inherited a portion of his wife's estate, with the remainder going to Frank Jr. Frank then transferred all assets (his and his son's) to a trust with the Irving Trust Co. The trust instrument stipulated that all income be paid to Frank for the support, maintenance, and education of his son. The IRS sought to tax Frank on all trust income.

**Procedural History**

The Commissioner of Internal Revenue issued deficiency notices, determining that Frank was taxable on all trust income. Frank petitioned the Tax Court for review. The Tax Court partially upheld the Commissioner's determination, finding Frank taxable only on the income derived from the portion of the trust attributable to his own assets.

**Issue(s)**

1. Whether Frank was the grantor of the entire trust, making him taxable on all of its income?
2. Whether Frank was taxable on the trust income given that the funds were not used directly by him but were designated for his son's support?

**Holding**

1. No, because Frank was only the grantor of the trust to the extent of the property he owned and transferred to the trust. He was not the grantor to the extent of his son's property conveyed to the trustee.
2. Yes, because the entire amount of the income of the trust was paid over to Frank and was available to him for the "support, maintenance, and education" of his minor son, regardless of actual use.

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## Court’s Reasoning

The court relied on the principle established in *Helvering v. Stuart, 317 U.S. 154 (1942)*, which held that a grantor is taxable on trust income that could be used for the support and maintenance of their minor children. The court distinguished between the portion of the trust funded by Frank’s assets and the portion funded by his son’s inheritance. It reasoned that Frank was taxable only on the income generated by his contribution because he retained the right to receive that income for his son’s support. The court rejected Frank’s argument that he should not be taxed because the income was not directly used for his son’s support, emphasizing that the availability of the funds for that purpose was sufficient. The court stated, “That case has no application to the proceeding at bar, for here the entire amount of the income of the 1930 trust was paid over to the petitioner during the taxable years and was available to him for the “support, maintenance, and education” of his minor son.” The court also found that Section 167(c) of the Internal Revenue Code did not apply because the discretion to apply the trust income rested with the grantor.

## Practical Implications

This case illustrates the grantor trust rules and the tax implications of funding trusts for the benefit of dependents. It highlights that a grantor can be taxed on trust income if they retain control over its use, particularly for fulfilling legal obligations like child support. The case emphasizes the importance of carefully structuring trusts to avoid unintended tax consequences. Attorneys drafting trust documents must consider who the true grantor is (based on asset origin) and ensure that the distribution provisions do not create a situation where the grantor is deemed to benefit, even indirectly, from the trust income. Later cases cite *Joseph* for the proposition that a grantor is taxable on trust income available for a dependent’s support, regardless of whether the funds are actually used for that purpose, if the grantor retained control over the funds’ use.

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