15 T.C. 1224 (1950)

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A trust beneficiary with the unrestricted right to demand trust income is taxable on that income, whether or not they actually request or receive it.

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Summary

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The Tax Court held that Blanche Hallowell was taxable on the income from two trusts because she had the unrestricted right to demand that income, even though she never actually requested or received it. The court reasoned that having the power to receive the income was equivalent to ownership for tax purposes. The decision hinged on the principle that one cannot avoid taxation by forgoing funds that are readily available. The court also reversed the Commissioner's determination that the trust grantor should be taxed on the same income, to prevent double taxation.

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Facts

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Howard Hallowell created three trusts. Trusts 2 and 3 gave Blanche Hallowell, the beneficiary, the unrestricted right to demand the income within thirty days after the end of each trust's fiscal year. The fiscal years for Trusts 2 and 3 ended on August 31 and October 31, respectively. Blanche was on a calendar year basis for tax purposes. Blanche never requested or received any income from the trusts. The trust indentures also contained a provision that allowed the trustee to distribute income as received if deemed advisable, although this did not limit Blanche's right to request income at the end of the fiscal year.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Blanche Hallowell's income tax, arguing she was taxable on the trust income. The Commissioner also determined that Howard Hallowell, the grantor, should be taxed on the trust income. The Tax Court consolidated the petitions of Blanche and Howard Hallowell. The Tax Court ruled in favor of the Commissioner regarding Blanche Hallowell's tax liability and reversed the determination regarding Howard Hallowell to prevent double taxation.

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Issue(s)

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Whether the income of trusts Nos. 2 and 3 is taxable to petitioner Blanche N. Hallowell under Section 22(a) of the Internal Revenue Code because she had the unrestricted right to demand the income of the trusts?

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Holding

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Yes, because the unrestricted right to receive the income is the equivalent of ownership of the income for purposes of taxation, regardless of whether that right is exercised.

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Court's Reasoning

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The Tax Court relied on the principle established in *Corliss v. Bowers*, 281 U.S. 376 (1930), and *Edward Mallinckrodt, Jr., 2 T.C. 1128 (1943)*, that "the income that is subject to a man's unfettered command and that he is free to enjoy at his own option may be taxed to him as his income, whether he sees fit to enjoy it or not." The court emphasized that the power to receive the income, not the actual receipt of it, is the determining factor. The court dismissed the argument that Blanche Hallowell did not have the right to receive the income during the trusts' fiscal years, stating that her right to demand the income after the fiscal year-end was sufficient to establish taxability. The court stated,

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