T.C. Memo. 1948-270

The number of trusts created by a will is determined by the testator's intent as expressed in the language of the will itself.

Summary

This case addresses whether a will created one trust with two beneficiaries or two separate trusts. The Commissioner determined deficiencies based on the theory that the testator created a single trust. The petitioners argued that the testator intended to create two separate trusts, one for each beneficiary. The court held that the will created only one trust because the testator consistently used singular terms when referring to the trust and carefully directed how the single trust should be maintained for the equal benefit of both beneficiaries. The trustees' separation of the corpus into two funds did not change the testator's original intent.

Facts

Jennie M. Wainwright's will provided for her two grandnephews, Edward and Fred. The will directed the trustees to manage a trust for the equal benefit of both grandnephews. The will outlined specific distribution schedules for Edward at ages 21, 25, and 35, with corresponding amounts to be set aside for Fred to be paid to him when he reached the same ages. The trustees, believing it would best serve the testator's purpose, separated the corpus and administered it as two separate trust funds.

Procedural History

The Commissioner of Internal Revenue determined tax deficiencies based on the assertion that the will created only one trust. The petitioners contested this determination, arguing that the will created two trusts. The Tax Court was tasked with reviewing the Commissioner's decision.

Issue(s)

Whether the will of Jennie M. Wainwright created one trust with two beneficiaries or two separate trusts, one for each beneficiary, for federal tax purposes.

Holding

No, the will created only one trust because the language of the will indicated an intent to create a single trust for the equal benefit of both beneficiaries, despite the trustees' subsequent separation of the assets.

Court's Reasoning

The court focused on the language of the will to determine the testator's intent. The

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court noted that the will consistently used the singular term ‘trust’ and provided detailed instructions for managing a single trust for the equal benefit of both grandnephews. The court emphasized that the distribution schedule, which involved setting aside portions for Fred each time Edward reached a certain age, would be illogical if two separate trusts were intended. The Court stated: “There is no mention in the will of two trusts. The decedent consistently used the singular in referring to the trusts and the plural in referring to the beneficiaries.” The court acknowledged that while the trustees separated the corpus into two funds to better serve the beneficiaries, this action did not alter the testator’s original intent as expressed in the will. The court also considered the testator’s purpose to treat each boy exactly like the other.

Practical Implications

This case underscores the importance of clear and unambiguous language in testamentary documents, particularly when establishing trusts. It clarifies that the testator’s intent, as expressed in the will’s language, is paramount in determining the number of trusts created. Attorneys drafting wills and trust agreements should carefully consider the specific language used to avoid ambiguity regarding the number of trusts intended. Trustees cannot unilaterally alter the structure of a trust created by a will, even if they believe it would be beneficial to the beneficiaries; they must adhere to the testator’s stated intentions. This case serves as a reminder that administrative convenience does not override the testator’s expressed intent. Later cases involving similar issues would need to consider the specific language of the testamentary document and the actions of the trustees in light of the testator’s original intent. How income tax is calculated for trusts depends entirely on the number of trusts created.

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