6 T.C. 219 (1946)

A grantor is not taxable on trust income under Internal Revenue Code sections 166 or 22(a) where the trust is not revocable, and the grantor has irrevocably assigned their income interest to another, even if the grantor retains some control over investments.

Summary

Ernst Huber created a trust, naming a trust company as trustee, with income payable to himself for life, then to his wife and children. He later assigned his income interest to his wife. The Commissioner of Internal Revenue argued that the trust income was taxable to Huber under sections 166 and 22(a) of the Internal Revenue Code, claiming the trust was revocable and Huber retained control. The Tax Court held that the trust was not revocable, the income assignment was valid, and Huber did not retain sufficient control to be taxed on the trust's income. The court emphasized that Huber relinquished his right to the income stream when he assigned it to his wife, and the retained power over investments did not constitute economic ownership.

Facts

In 1931, Ernst Huber created a trust, funding it initially with 3,000 shares of Borden Co. stock. The trust agreement stipulated that income was payable to Huber for life, and then to his wife and children. Huber expressly surrendered the right to amend or revoke the trust. However, the trustee needed Huber's written consent for any leasing, selling, transferring, or reinvesting of trust funds. In 1937, Huber irrevocably assigned his life income interest in the trust to his wife. The trustee distributed all trust income to Huber's wife in 1939, 1940, and 1941, which she used as she saw fit.

Procedural History

The Commissioner of Internal Revenue assessed deficiencies in Huber's income tax for 1939, 1940, and 1941. The Commissioner determined that the trust income was taxable to Huber under sections 166 and/or 22(a) of the Internal Revenue Code. A Connecticut court validated the assignment of income in a decision entered on December 10, 1943. Huber petitioned the Tax Court contesting the Commissioner's determination.

Issue(s)

Whether the income of the trust for the years 1939, 1940, and 1941 was taxable to the petitioner under section 166 or section 22(a) of the Internal Revenue Code.

Holding

No, because the trust was not revocable within the meaning of section 166, and the powers retained by Huber were insufficient to treat him as the economic owner of the trust under section 22(a).

Court's Reasoning

The Tax Court rejected the Commissioner's argument that paragraph twelfth of the deed of trust implied revocability. The court interpreted the paragraph as merely allowing the trustee bank to resign without court order, not as terminating the trust itself. The court noted provisions for a successor trustee, an express surrender of the right to revoke, and intentions against the donor retaining trust property. The court reasoned that even if the trustee's resignation triggered termination, a court would protect the beneficiaries' interests. The court stated, "Other provisions of the trust all indicate that the trust was to continue under a new corporate trustee if the first trustee named should resign or for any other reason cease to act."

The court further reasoned that Huber's right to request corpus to bring the annual distribution to $10,000 was lost when he assigned his income interest to his wife. Finally, the court held that Huber's power to consent to investment changes, coupled with the beneficiaries being his family, did not equate to economic ownership under section 22(a) and the precedent set in *Helvering v. Clifford*. The court also noted that while the trust instrument initially restricted assignment, a Connecticut court validated Huber's assignment to his wife. The Tax Court declined to re-litigate this issue.

Practical Implications

This case illustrates the importance of clear and unambiguous language in trust documents, especially regarding revocability and amendment powers. It highlights that a grantor's retention of some control over trust investments does not automatically trigger taxation under grantor trust rules, especially when coupled with a valid and irrevocable assignment of income. The case reinforces the principle that courts will look to the substance of a transaction over its form when determining tax consequences related to trusts. *Huber v. Commissioner* provides a factual scenario that distinguishes it from cases like *Clifford*, showing that family relationships alone are not enough to attribute trust income to the grantor. Later cases would cite Huber to support the validity of income assignments within trusts, provided the grantor truly relinquishes control and benefit.