Williamson v. Commissioner, 2 T.C. 582 (1943)

Retaining limited powers over trust investments and having family members as beneficiaries does not automatically subject a grantor to taxation on trust income under grantor trust rules, absent substantial economic ownership or explicit revocation rights.

Summary

The Commissioner argued that trust income should be taxed to the petitioner (grantor) because the trust was allegedly revocable and the grantor retained control over investments, with family members as beneficiaries, citing the precedent of *Helvering v. Clifford*. The Tax Court rejected both arguments. It determined the trust was not revocable in a manner that would trigger grantor trust rules, and the grantor's limited power to require consent for investment changes, even with family beneficiaries, did not equate to economic ownership under Section 22(a) of the Internal Revenue Code or the principles of *Clifford*. The court also acknowledged the grantor's valid assignment of income rights to his wife, further supporting the decision against taxing the grantor.

Facts

The petitioner (donor) established a trust with a bank as the initial trustee. The trust deed contained a clause stating that if the trustee bank resigned, the trust would terminate after settling accounts, which the Commissioner interpreted as a revocation power. However, other provisions indicated the intent for the trust to continue with a successor trustee and explicitly surrendered the donor's right to revoke, except if all beneficiaries predeceased him. Initially, the petitioner was the income beneficiary but subsequently assigned all rights to the trust income to his wife. The trust instrument allowed the petitioner, as the original income beneficiary, to request principal advances if the annual income fell below $10,000, these advances to be repaid from future excess income. The petitioner retained the power to require the trustee bank to obtain his consent before making changes to trust investments. The beneficiaries of the trust were the petitioner's wife and children.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency, determining that the income from the trust was taxable to the petitioner. The petitioner contested this assessment before the Board of Tax Appeals (now the Tax Court).

Issue(s)

1. Whether a clause in the trust deed concerning trustee resignation effectively rendered the trust revocable for the purposes of grantor trust taxation?

2. Whether the grantor's retained power to require consent for investment changes,

© 2025 SCOTUSreports.com. All rights reserved.

combined with the family relationships of the beneficiaries, was sufficient to deem the grantor the economic owner of the trust income under Section 22(a) and the doctrine established in *Helvering v. Clifford*, thus making the trust income taxable to him?

3. Whether the assignment of trust income by the grantor to his wife was valid and effective in shifting the income tax burden away from the grantor?

Holding

1. No, because the trustee resignation clause was interpreted as a procedural mechanism for trustee succession, not a substantive power to revoke the trust and reclaim the trust corpus.

2. No, because the grantor's limited investment control and familial relationship with beneficiaries did not amount to the degree of economic dominion required to tax the trust income to the grantor under Section 22(a) and *Helvering v. Clifford*.

3. (Implicitly Yes) The court acknowledged the validity of the income assignment, citing precedent and scholarly authority, although it noted the Commissioner did not directly challenge the assignment's validity in this proceeding.

Court's Reasoning

The court reasoned that the trust document, when read in its entirety, indicated a clear intent to establish an irrevocable trust, except in the specific circumstance of all beneficiaries predeceasing the grantor. The trustee resignation clause was interpreted as a provision designed solely to facilitate trustee succession without requiring court intervention, not as a disguised revocation power. Addressing the Commissioner's reliance on *Helvering v. Clifford*, the court distinguished the facts, stating, "Such a control, coupled with the fact that the beneficiaries were his wife and children, does not give economic ownership of the trust corpus and income to the petitioner within the meaning of 22 (a) and the Clifford case." The court emphasized that the grantor's retained control was limited and did not equate to the substantial incidents of ownership present in *Clifford*. Furthermore, the court acknowledged the valid assignment of income, reinforcing the conclusion that the grantor had effectively divested himself of the right to receive the trust income.

Practical Implications

Williamson v. Commissioner provides important clarification on the scope of grantor trust rules after *Helvering v. Clifford*. It demonstrates that not every form of retained control by a grantor, particularly in trusts for family members, will result in the grantor being taxed on the trust income. The case highlights that courts will examine the totality of the trust agreement to ascertain the grantor's true powers and intent, and will not readily construe ambiguous clauses as powers of revocation. It underscores that for grantor trust taxation to apply based on retained control, the

© 2025 SCOTUSreports.com. All rights reserved.

grantor’s powers must amount to substantial economic ownership, not merely administrative or limited influence. This case advises legal practitioners to carefully draft trust instruments to clearly define the grantor’s powers and avoid unintended grantor trust status when limited control is desired. It also suggests that limited retained powers, such as consultation on investments, especially when coupled with valid income assignments, may not automatically trigger grantor trust rules, offering flexibility in estate planning.

© 2025 SCOTUSreports.com. All rights reserved.