Herbert G. Horst v. Commissioner, 5 T.C. 981 (1945)

A grantor is taxable on trust income if they retain the power to use that income to satisfy their legal obligations, such as spousal or child support, even if the income is not directly used for that purpose.

Summary

Herbert Horst and his wife created trusts funded with community property, with income payable to the wife. The Tax Court held that the husband was taxable on half the trust income because he retained the power to have it used for his wife's support, satisfying his legal obligation. Even though the wife received the income directly, and the husband had other means to support her, the agreement designating the trust as support provision meant the income was available to discharge his obligation, thus taxable to him.

Facts

Horst and his wife, while living together, converted their community property into separate property. Horst conveyed their residence to his wife and agreed to pay her $700 monthly for her and their children's support. They also established four trusts; one for the wife and three for the children. The wife's trust mandated monthly income payments to her. The children's trusts mandated monthly payments to the wife during their minority, with no accounting required. The wife agreed that the residence conveyance, the monthly payments, and the trusts, were "as and for satisfactory, reasonable, and sufficient provision for her support and maintenance." Horst had separate income sufficient to support his family.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency against Herbert Horst, arguing that he was taxable on half the income from the four trusts. Horst petitioned the Tax Court for a redetermination. The Tax Court upheld the Commissioner's assessment.

Issue(s)

Whether a husband who establishes trusts mandating income payments to his wife, who accepts the trusts as satisfactory provision for her support, remains taxable on the trust income, even if the income's actual use for support is unknown and the husband has other sufficient funds for support?

Holding

Yes, because the husband retained the power to allocate the trust income to his wife's support, thus freeing his separate property for other uses, making him taxable on half of the trust income.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court relied on the principle that income subject to a person’s unfettered command and available for their benefit is taxable to them, regardless of whether they actually use it. The court stated,

© 2025 SCOTUSreports.com. All rights reserved.