8 T.C. 104 (1947)

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A grantor is taxable on trust income under Section 22(a) of the Internal Revenue Code when the grantor retains substantial control over the trust, including broad administrative powers and the ability to control the distribution of income and corpus, such that the grantor’s economic position remains essentially unchanged after the creation of the trust.

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Summary

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Nate S. Shapero created three trusts, one each for his wife and two minor children, retaining significant control as a co-trustee, including the power to accumulate income, invade the corpus, and direct the sale of trust property. The Tax Court held that Shapero was taxable on the income from all three trusts because he retained substantial control, making his economic position substantially unchanged after the trusts’ creation. This decision hinged on the application of the grantor trust rules and the principle established in *Helvering v. Clifford*.

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Facts

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In 1934, Nate S. Shapero established three trusts: one for his wife, Ruth, and one each for his minor son and daughter. Shapero served as co-trustee of each trust. The trust agreements granted Shapero broad managerial authority, including the power to accumulate income, invade the corpus for the beneficiaries’ benefit, and direct the sale and pricing of trust property. He also had the power to remove the corporate co-trustee and amend the trusts, provided he did not alter the beneficiaries’ rights of enjoyment or revest title to the trust assets in himself. The trusts held a significant amount of stock in Cunningham Drug Stores, Inc., where Shapero was president and received substantial compensation.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Shapero's income tax for 1940 and 1941, arguing that the trust income was taxable to Shapero personally. Shapero contested this determination in the Tax Court.

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Issue(s)

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Whether the income of the three trusts created by Nate S. Shapero is taxable to him as the grantor, under Section 22(a) of the Internal Revenue Code, due to the extensive powers and control he retained over the trusts.

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Holding

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Yes, because Shapero retained such substantial control over the trusts that his economic position remained essentially unchanged after their creation, making him taxable on the trust income under Section 22(a) and the principles of *Helvering v. Clifford*.

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Court's Reasoning

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The Tax Court emphasized that the key inquiry is whether the grantor's retained powers and benefits, viewed in their totality, amount to a continued enjoyment of the property. The court found that Shapero retained extensive administrative control over the trusts, including investment decisions, voting rights of stock held by the trusts, and the power to direct distributions of income and corpus. The court noted that Shapero's control over the corporate co-trustee, through his power of removal, further solidified his dominance. The court relied heavily on the precedent set in *Helvering v. Clifford*, stating that the