8 T.C. 415 (1947)

A taxpayer cannot deduct rent payments made to a trust if the creation of the trust and the leaseback are part of a single, integrated transaction where the taxpayer effectively retains control over the property.

Summary

The taxpayer, a doctor, created a trust for the benefit of his wife and children, transferring a building he used for his practice to the trust. Simultaneously, the trust leased the building back to the doctor. The Tax Court disallowed the doctor's deduction for rent payments to the trust, finding that the arrangement was a single transaction where the doctor never relinquished control over the property. The court reasoned that the leaseback was essentially a reservation of rights, not a genuine transfer followed by an independent lease.

Facts

Dr. Skemp created an irrevocable trust for his wife and eight children, naming La Crosse Trust Co. as trustee.

He transferred a two-story building, used primarily for his medical clinic, to the trust.

On the same day, the trust and Dr. Skemp entered into a lease agreement for the building. The lease stipulated a monthly rental of $500 for the first two years, after which the rental amount would be subject to review, with the county judge acting as arbitrator in case of disagreement.

The trust agreement allowed Dr. Skemp to direct the trustee regarding investments and retained his written consent for sales or mortgages during his lifetime.

Procedural History

The Commissioner of Internal Revenue disallowed Dr. Skemp's deduction for the rent payments made to the trust in 1941.

Dr. Skemp petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the taxpayer can deduct rental payments made to a trust where the taxpayer created the trust and simultaneously leased back the property.

Holding

No, because the creation of the trust and the leaseback were a single transaction where the taxpayer effectively retained control over the property, precluding the

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deduction of rent payments as a business expense.

Court’s Reasoning

The court applied the principle that a taxpayer cannot deduct expenses where they retain control over the purportedly transferred asset.

The court distinguished this case from situations where a true gift is made, followed by an independent transaction.

The court emphasized that the trust and lease agreements were executed on the same day, indicating a prearranged plan. It stated, “we must and do… it appears equally plain that in substance and fact he reserved from such transfer of the title a lease to himself”.

The court found that Dr. Skemp

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