8 T.C. 563 (1947)

Under Section 162(b) of the Internal Revenue Code, as amended by the Revenue Act of 1942, income of an estate for its taxable year which becomes payable to a residuary legatee upon termination of the estate is considered "income which is to be distributed currently" and is includible in the taxable income of the legatee, regardless of state law treatment.

Summary

Hazel Kirk Carlisle, the residuary legatee of her deceased husband's estate, received the estate's net income of $24,709.74 in 1942 upon the estate's termination. The Commissioner of Internal Revenue determined that this income was taxable to Carlisle. The Tax Court addressed whether the estate's net income was includible in Carlisle's income under Section 162(b) of the Internal Revenue Code, as amended. The Tax Court held that the entire net income of the estate was "income which is to be distributed currently" and therefore taxable to Carlisle, reinforcing Congress's intent to tax estate income to the person enjoying it.

Facts

Tyler W. Carlisle died testate in 1940, leaving his residuary estate to his wife, Hazel Kirk Carlisle. Hazel was appointed executrix. The final account of the estate was filed and approved in December 1942, at which time all cash and other assets were distributed to Hazel. The estate's 1942 income included dividends, interest, and a net capital gain from the sale of stock. The estate did not deduct any amount as distributed to Hazel on its fiduciary income tax return.

Procedural History

The Commissioner determined a deficiency in Carlisle's income tax for 1943 (related to her 1942 income due to the Current Tax Payment Act of 1943), including the estate's net income in her taxable income. Carlisle petitioned the Tax Court, contesting the Commissioner's determination. The Tax Court reviewed the case based on stipulated facts.

Issue(s)

Whether the entire net income of the estate of Tyler W. Carlisle for the year 1942 is includible in the income of Hazel Kirk Carlisle and taxable to her for the year 1942 under Section 162(b) of the Internal Revenue Code, as amended by the Revenue Act of 1942.

Holding

Yes, because Section 162(b), as amended, includes income for the taxable year of the estate which, within the taxable year, becomes payable to the legatee as

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“income which is to be distributed currently,” and the legislative history indicates this applies to distributions to a residuary legatee upon termination of the estate.

Court’s Reasoning

The Tax Court focused on the amendment to Section 162(b) of the Internal Revenue Code by Section 111(b) of the Revenue Act of 1942. Prior to this amendment, income distributed to a residuary legatee upon final settlement was not always taxable to the legatee if the will or state law did not provide for current distribution. The amendment specifically addressed this by defining “income which is to be distributed currently” to include income that becomes payable to the legatee within the taxable year, even as part of an accumulated distribution. The court quoted Senate Finance Committee Report No. 1631, emphasizing that the amendment was designed to clarify the law and include accumulated income paid to a residuary legatee upon termination of the estate within the scope of taxable income for the legatee. The court reasoned, “The aim of the statute dealing with the income of estates and trusts is to tax such income either in the hands of the fiduciary or the beneficiary.” The court determined that Congress intended the income of an estate paid to a residuary legatee upon termination to be covered by the amendment, overriding state law distinctions between income and principal in the residue. Because the estate terminated in 1942 and its income became payable to Hazel Carlisle in that year, the court concluded that the income was currently distributable and taxable to her.

Practical Implications

This decision clarifies the tax treatment of estate income distributed to residuary legatees upon termination. It reinforces the principle that such income is generally taxable to the legatee, regardless of how state law characterizes it (e.g., as principal or income). Legal practitioners must consider Section 162(b), as amended, when advising clients on estate planning and administration, particularly when dealing with the distribution of estate income. This ruling shifted the focus from state law characterization to the timing of when the income becomes payable, making the legatee responsible for the tax burden in the year of distribution. Later cases applying this ruling emphasize the importance of determining when income is considered “payable” under the terms of the will and relevant state law.

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