Rosenblatt v. Commissioner, 16 T.C. 100 (1951)

A grantor of a trust is taxable on the trust's income under Section 166 of the Internal Revenue Code if the power to revest title to a portion of the trust corpus is vested in that grantor, even if other grantors lack such power.

Summary

The Tax Court addressed whether a grantor, Gertrude Rosenblatt, was taxable on a portion of a trust's income under Section 166 of the Internal Revenue Code, concerning revocable trusts. The trust was established by six settlors, but only four had the power to revoke. Rosenblatt argued that because not all grantors could revoke, Section 166 didn't apply. The court rejected this argument, holding that the statute applies when *any* grantor possesses the power to revest title in themselves. The court also addressed the deductibility of lease cancellation payments.

Facts

Gertrude Rosenblatt and five others created a trust, transferring their interests in a dissolved corporation to the trust. The trust deed initially allowed any three of four specific individuals (including Rosenblatt) to revoke the trust. Upon revocation, the corpus would first pay off corporate bonds, then $5,000 each to seven named individuals, and finally, any remainder would be divided equally among four of the original settlors, including Rosenblatt. The Commissioner determined that one-fourth of the trust's income was taxable to Rosenblatt.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Rosenblatt's income tax for 1939, 1940, and 1941. Rosenblatt petitioned the Tax Court for a redetermination. The Tax Court addressed two issues: the taxability of trust income to Rosenblatt and the deductibility of a lease cancellation payment.

Issue(s)

1. Whether one-fourth of the income of a trust for each year is taxable to Gertrude Rosenblatt under section 166 of the Internal Revenue Code because the trust was revocable.
2. Whether the Commissioner erred in allowing as a deduction for 1940 only two-fifths of an amount paid by the trust to cancel a lease and in amortizing the remaining three-fifths over the life of a new lease.

Holding

1. Yes, because the power to revest title to a portion of the trust corpus was vested in her, despite the fact that not all grantors had such power.
2. Yes, because the entire amount should have been deducted in 1940 since the term

© 2025 SCOTUSreports.com. All rights reserved.

of the old lease expired in that year.

Court's Reasoning

Regarding the revocable trust issue, the court reasoned that Section 166 was intended to cover situations where some, but not all, grantors have the power to revoke the trust and revest title in themselves. The court quoted *Crossett v. United States*, stating that "Congress plainly intended that the income from all trusts should be included in the income of the grantor or grantors, unless it was necessary to its revocation that the grantor or grantors secure the consent of someone whose interest was against revocation." In this case, any three of the four named grantors could revoke the trust, resulting in a significant portion of the property revesting in those four. Because Rosenblatt was one of those four, the court upheld the Commissioner's determination. Regarding the lease cancellation payment, the court cited *Clara Hellman Heller Trust No. 7610, 7 T.C. 556*, and held that the entire payment was deductible in the year the old lease expired.

Practical Implications

This case clarifies the application of Section 166 when multiple grantors establish a trust, and only some possess the power to revoke. It establishes that the grantor who has the power to revoke and revest assets can be taxed on the income, even if other grantors lack that power. This decision emphasizes the importance of carefully structuring trusts with multiple grantors to avoid unintended tax consequences. It also highlights that payments to cancel a lease are deductible in the year the lease terminates. This case serves as a warning to tax planners and settlors of trusts to carefully consider who has the power to revoke a trust when determining potential tax liabilities.

© 2025 SCOTUSreports.com. All rights reserved.