***The St. Louis Union Trust Co. v. Commissioner, 14 T.C. 730 (1950)***

The transfer of property to a care facility via a trust, where the facility only receives the corpus upon the death of the beneficiary, is taxable income to the facility in the year the beneficiary dies, not the year the trust was established.

**Summary**

The St. Louis Union Trust Co. case addresses the tax year in which a care facility must recognize income from a trust established to pay for the care of a dependent. Victor Gauss created a trust to ensure the lifetime care of his son, William, who had significant mental and physical disabilities. The trust agreement specified that after Victor's death, the care facility would receive income from the bonds held in trust and, upon William's death, would receive the bonds themselves as compensation for his care. The Tax Court held that the care facility, after Victor's death, became the beneficial owner of the bonds only at the end of William's life, when the trust terminated and the facility completed its undertaking to care for William.

**Facts**

Victor Gauss established a trust with bonds valued at $28,000 to provide for the care of his son, William, who required specialized care due to mental and physical disabilities. Victor agreed to pay $100 per month to the care facility during his lifetime. After Victor's death, the facility would receive income from the trust, and upon William's death, the facility would receive the trust corpus. The contract stipulated that if the facility mistreated or neglected William, the trust corpus would go to another institution providing care for William in the six months preceding his death. Victor died in 1931, and William died in 1944, after receiving continuous care from the facility.

**Procedural History**

The Commissioner of Internal Revenue determined that the fair market value of the bonds was taxable income to the petitioner in 1944, the year of William's death. The Tax Court reviewed the Commissioner's determination.

**Issue(s)**

Whether the care facility became the equitable owner of the bonds held in trust in 1931 (upon Victor's death), making the market value of the bonds taxable income in that year, or whether the market value was taxable in 1944, when William died and the facility received the bonds.

**Holding**

No, the care facility did not become the equitable owner of the bonds in 1931 because the trust was primarily for William's benefit, with the facility's right to the

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corpus contingent on providing care until William's death. The fair market value of the bonds was taxable income in 1944, the year William died and the facility received the bonds.

**Court's Reasoning**

The court reasoned that the contract of 1924 must be construed as a whole, considering all the facts. Victor intended to ensure the care of his son, William, who was the primary beneficiary of the trust. The facility's right to the trust corpus was contingent upon providing proper care to William throughout his life. The court rejected the analogy to an escrow arrangement, where the vendee obtains equitable ownership upon placement of property in escrow. Here, Victor did not intend to transfer beneficial ownership of the bonds to the facility upon his death, subject to being divested upon failure to provide care. The court emphasized that the facility was to receive the trust corpus as compensation for services rendered to the trust in caring for William, especially since the current trust income was less than the customary charges for similar services. The court stated, "We conclude, after an examination of the 1924 contract as a whole and in the light of all the surrounding facts, that petitioner became the beneficial owner of the bonds held by the trust only at the end of William's life, when the trust terminated and when petitioner completed its undertaking to properly care for William during his lifetime."

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