***Stockstrom v. Commissioner, 148 F.2d 491 (8th Cir. 1945)***

A settlor is taxable on the income of a trust where they retain substantial control over the distribution of income and corpus, even without the power to revest title in themselves, particularly where the settlor can use the trust to satisfy their legal obligations.

**Summary**

The Eighth Circuit held that the settlor of a trust was taxable on the trust's income under the Clifford doctrine because he retained significant control over the distribution of income and corpus, including the power to direct payments to new beneficiaries and the potential to use the trust to satisfy his legal obligations. The court distinguished this case from others where the settlor had less control and could not benefit from the trust. The decision emphasizes the importance of the settlor's retained powers over the trust's assets and income in determining tax liability.

**Facts**

The petitioner, Stockstrom, created two trusts. In Trust No. 189, the settlor reserved no power of revocation or management. However, the trust instrument was modified to include issue of the named beneficiaries as additional beneficiaries. The settlor reserved the exclusive right to direct or withhold payments of income and principal to the named beneficiaries. During the taxable year, income from Trust No. 189 was distributed to some of the new beneficiaries. Trust No. 79 was revoked in 1942 and in 1944 or 1945 trust No. 189 was canceled with the consent of the beneficiaries.

**Procedural History**

The Commissioner of Internal Revenue determined that the income from the trust was taxable to the settlor. The Tax Court initially ruled in favor of the Commissioner. This appeal followed, challenging the Tax Court's decision.

**Issue(s)**

Whether the income of Trust No. 189 is taxable to the settlor, Stockstrom, under Section 22(a) of the Internal Revenue Code, due to the powers he retained over the distribution of income and corpus.

**Holding**

Yes, because the settlor retained significant control over the distribution of income and corpus, including the power to direct payments to new beneficiaries and the potential to use the trust to satisfy his legal obligations.

**Court's Reasoning**

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The court applied the Clifford doctrine, focusing on the settlor's retained powers over the trust. The court noted that although the settlor did not have the power to revest title in himself, he had broad discretion over the distribution of income and principal. The court emphasized that the settlor could withhold income for accumulation or distribute it to any of the named beneficiaries, including his wife, potentially satisfying his legal obligation of support. The court distinguished this case from *Hawkins v. Commissioner*, where the settlor had less control and could not benefit from the trust. The court quoted *George v. Commissioner*, stating, "The named beneficiaries acquired only potential interests and no real ownership." The court also cited *Helvering v. Horst*, stating, "The power to dispose of income is the equivalent of ownership of it" and the right to distribute constitutes enjoyment of the income. The court found that the settlor's control over the trust's income and assets was substantial enough to warrant taxing the income to him.

**Practical Implications**

This case illustrates that the grantor of a trust may be taxed on the income of that trust even if they do not have the power to directly receive the income. The key factor is the degree of control the grantor retains over the trust, especially concerning the distribution of income and corpus. Attorneys drafting trust documents should advise clients that retaining significant control over distributions can lead to the trust income being taxed to the grantor. This case serves as a reminder that the substance of the trust arrangement, rather than its form, will determine tax consequences. Subsequent cases have cited *Stockstrom* to reinforce the principle that retained control, even without direct benefit, can trigger taxation under the Clifford doctrine. It underscores the importance of carefully structuring trusts to avoid unintended tax consequences for the settlor.

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