Kane v. Commissioner, 11 T.C. 74 (1948)

Income from a trust established before the enactment of Oklahoma's community property law, which is distributed to a beneficiary after the law's effective date, constitutes community property, not separate property, under Oklahoma law.

Summary

The Tax Court addressed whether trust income received by a wife, domiciled in Oklahoma, after the effective date of Oklahoma's 1945 Community Property Act was community income or her separate income. The income was derived from trusts created by her father before the enactment of the Act. The court held that the income constituted community property because it was acquired during the marriage and after the effective date of the Act, and did not fall within the statutory definition of separate property.

Facts

The petitioner, Kane, and his wife were domiciled in Oklahoma. His wife was a beneficiary of two trusts established by her father: an inter vivos trust created in 1932 and a testamentary trust created through his will in 1935. The 1932 trust was irrevocable. After July 26, 1945, the effective date of Oklahoma's Community Property Act, Kane's wife received distributions from both trusts. The Commissioner determined that one-half of these distributions was taxable to Kane as community property income.

Procedural History

The Commissioner assessed a deficiency against Kane, arguing that the trust distributions were community income. Kane contested the deficiency in the Tax Court, arguing the distributions were his wife's separate property. The Tax Court upheld the Commissioner's determination.

Issue(s)

Whether income received by a wife from trusts established before the effective date of the Oklahoma Community Property Act, but distributed after its effective date, constitutes community income under Oklahoma law.

Holding

No, because the income was not received as a gift, devise, or descent, as defined by Oklahoma statutes. The income accrued and was received after the 1945 Act became effective and is therefore considered community property under section 68 of the Act.

Court's Reasoning

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The court relied on the Oklahoma Community Property Act of 1945, specifically sections 66, 67, and 68, which define separate and community property. Section 68 states that all property acquired by either spouse during marriage and after the effective date of the Act, except that which is separate property, is deemed community property. The court reasoned that the trust income was not the wife's separate property because it was not owned or claimed by her before the marriage or the effective date of the Act, nor was it acquired after the effective date by gift, devise, or descent. The court distinguished *Irwin v. Gavit*, 268 U.S. 161, and emphasized the similarity between Oklahoma's law and Texas community property law. The court stated:

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