11 T.C. 135 (1948)

The intent of the settlor, as expressed in the trust instrument, determines whether a trust creates a single trust with multiple beneficiaries or multiple separate trusts, impacting the deductibility of income distributions for tax purposes.

Summary

William L. Mellon created four trusts, one for each of his children, with annuities paid to them as primary beneficiaries. Excess income was to be divided among his living grandchildren (or their issue). The trustees set up separate accounts for each grandchild but did not distribute income for their maintenance, education, or support. The Tax Court held that the trust instruments created only four trusts, not multiple trusts for each grandchild. Therefore, the excess income was not deductible under sections 162(b) or 162(c) of the Internal Revenue Code because it was not considered distributed or irrevocably set aside for the beneficiaries.

Facts

William L. Mellon established four irrevocable trusts in 1941, each naming one of his four children as the primary beneficiary. Each trust was funded with 10,000 shares of Gulf Oil Corporation stock. The trust deeds directed that $10,000 per year be paid to each primary beneficiary. Any excess income was to be divided equally among Mellon's living grandchildren (or their issue). During the tax years in question, there were twelve living grandchildren, all minors. The trustees created separate subsidiary accounts for each grandchild, transferring portions of the excess income into these accounts. However, no funds were actually used for the minors' maintenance, education, or support.

Procedural History

The Commissioner of Internal Revenue disallowed the trustees' deductions of the excess income allocated to the grandchildren's accounts. The trustees petitioned the Tax Court for review. The Tax Court consolidated the cases and ruled in favor of the Commissioner, determining that only four trusts existed, not multiple trusts. Thus the income was not deductible.

Issue(s)

Whether the trust instruments created a single trust with multiple beneficiaries or multiple separate trusts, thus determining if the excess income allocated to the grandchildren's accounts was deductible from the gross income of the trust under sections 162(b) or 162(c) of the Internal Revenue Code.

Holding

No, because the settlor's intent, as evidenced by the language of the trust

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instruments, indicated the creation of only four trusts, not individual trusts for each grandchild. Therefore, the income was not considered to be distributed or irrevocably set aside for the beneficiaries under the meaning of the tax code at the time.

Court’s Reasoning

The court emphasized that the settlor’s intent, as expressed within the four corners of the trust instruments, is paramount in determining whether a single or multiple trusts were created. The court noted the consistent use of singular terms throughout the trust deeds when referring to the

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