11 T.C. 868 (1948)

A trustee’s allocation of stock dividends to the trust principal, rather than distributing it as income to the beneficiary, is valid for tax purposes if the trust instrument grants the trustee discretionary power and the allocation aligns with state law.

Summary

In 1937, a testamentary trust received stock dividends. The trustees allocated these to the trust corpus, paying the tax due from the trust. Margaret Biddle, the income beneficiary, argued that the dividends should be considered currently distributable income, taxable to her. Additionally, the IRS contended that income from a separate trust created by Mrs. Biddle for her husband and children should be included in her gross income. The Tax Court held that the trustees properly allocated the stock dividends to the trust principal and that the income from the second trust was not includible in Mrs. Biddle’s gross income.

Facts

William Boyce Thompson established a testamentary trust for his daughter, Margaret Biddle. The will gave the trustees discretion to determine what constituted income or principal, except for

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