11 T.C. 890 (1948)

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Trust income is not taxable to the grantor merely because the trustee has discretion to use the income for the support of a beneficiary whom the grantor is legally obligated to support, except to the extent that such income is actually used for that purpose.

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Summary

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Emanuel Sturman created a trust for his wife, son, and daughter. The trust directed the trustee to pay his wife $2,500 annually and allowed the trustee discretion to pay additional sums for her maintenance and support. The wife deposited most of the $2,500 payments into her bank account, using a small portion for taxes and charitable contributions. The Commissioner argued the trust income was taxable to Sturman under the *Douglas v. Willcuts* doctrine. The Tax Court held that the $2,500 payments were not taxable to the grantor because they were not explicitly designated for support, and the wife did not use the funds for support.

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Facts

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Emanuel Sturman created an irrevocable trust in 1941, naming his wife, Carrie Sturman, his son, Leon H. Sturman (who was also the trustee), and his daughter, Charlotte S. Reich, as beneficiaries. The trust agreement directed the trustee to pay Carrie Sturman $2,500 per year in monthly installments. The trustee also had the discretion to pay Carrie Sturman additional sums for her maintenance and support. If the trust income was insufficient, the trustee was authorized to make payments out of the principal. In 1942 and 1943, Carrie Sturman received $2,500 each year from the trust. She deposited almost all of these funds into her savings account.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Emanuel Sturman’s income tax for 1943, arguing that the trust income used to support his wife was taxable to him. Sturman petitioned the Tax Court for a redetermination. Emanuel Sturman died during the proceedings, and his estate was substituted as the petitioner.

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Issue(s)

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Whether income from a trust paid to the grantor’s wife is taxable to the grantor when the trust directs a fixed annual payment to the wife and grants the trustee discretion to make additional payments for her maintenance and support, and the fixed annual payment is not used for support.

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Holding

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No, because the trust agreement stipulated a definite annual payment to the wife without restriction and a second series of discretionary payments for maintenance and support; moreover, the wife did not use the fixed annual payment for support.

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Court’s Reasoning

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The court interpreted the trust agreement to provide for a definite annual payment of $2,500 to the wife, with no limitation or restriction. It also provided for a second series of payments to be made to the wife solely at the trustee’s discretion for her maintenance and support. The court rejected the Commissioner’s argument that the phrase

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