***11 T.C. 928 (1948)***

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The reciprocal trust doctrine dictates that trusts with interrelated terms and beneficiaries will be treated as if each grantor created the trust actually benefiting them, for tax purposes.

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**Summary**

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Margaret and Edgar Tobin, a married couple in Texas, created multiple trusts benefiting each other and their family. The IRS argued that the income from these trusts should be taxed as community income to the Tobins. The Tax Court determined that certain trusts were indeed reciprocal and taxable to the grantors under Section 167(a)(2) of the Internal Revenue Code, while others were not taxable under Section 22(a). The court also addressed deductions for farm expenses and storage fees, and the availability of credits for taxes paid by the trusts.

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**Facts**

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In 1935, Edgar and Margaret Tobin, concerned about potential financial hardship for their loved ones, established eight trusts using community property. Edgar created five trusts, and Margaret created three. These trusts featured corporate trustees and advisory committees. Some trusts provided income to the grantor’s spouse for life, with the corpus becoming part of the beneficiary’s estate upon death. Other trusts benefited their children and Edgar’s mother.

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**Procedural History**

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The Commissioner of Internal Revenue assessed deficiencies against the Tobins for the tax years 1940-1943, arguing that the income from the trusts should be included

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in their community income. The Tobins petitioned the Tax Court, contesting the Commissioner's determination.

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**Issue(s)**

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1. Whether the income of the eight trusts is taxable to the Tobins as community income under Section 22(a) or Section 167 of the Internal Revenue Code.

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2. Whether the Tobins are entitled to deduct certain amounts as farm expenses.

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3. Whether the Tobins are entitled to deduct an amount claimed for storage and care of equipment.

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4. If the income of the trusts is taxable to the Tobins, whether they are entitled to a credit for the tax paid by the trustees.

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**Holding**

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1. Yes, because four of the trusts were reciprocal, and the income was therefore taxable to the grantors under Section 167(a)(2) and considered community income under Texas law. No, because the remaining four trusts did not grant the settlors enough control for the income to be taxed under Section 22(a).

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2. No, because the Tobins did not prove that the farm was operated for profit.

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3. Yes, as to the storage fees paid to the Robert Batts Tobin Trust No. 1, because the income from that trust was not taxable to the Tobins, making the payment a deductible business expense.

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4. No, because the Tobins are not entitled to a credit for taxes paid by trusts whose income is deemed taxable to them.

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**Court’s Reasoning**

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The court applied the reciprocal trust doctrine, finding that the trusts where each spouse was the beneficiary of a trust created by the other were essentially a way for each spouse to retain control and benefit from their own property while nominally transferring it to a trust. The court relied on *Lehman v. Commissioner,* stating that the principles of that case were applicable here. The court emphasized that

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