6 T.C. 1085 (1946)

The grantor of a trust is taxable on the trust income to the extent that the trustee distributes it for the support or maintenance of beneficiaries whom the grantor is legally obligated to support, regardless of whether the beneficiary actually spends the entire distribution for support during the tax year.

Summary

The Tax Court addressed whether trust income distributed for the support of a grantor's minor children is taxable to the grantor under Section 167(c) of the Internal Revenue Code, even if the entire distributed amount wasn't spent on their support during the tax year. The court held that the grantor is taxable on the entire amount distributed by the trustee for the children's support, emphasizing the trustee's actions, not the guardian's subsequent application of the funds. This ruling reinforces the principle that distribution by the trustee for support triggers tax liability for the grantor, aligning with the intent of Section 167(c) to tax income used to fulfill the grantor's legal obligations.

Facts

A trust was established for the benefit of the petitioner's minor daughters. In 1943, the trustee distributed $4,067.71 from the trust income for the support and maintenance of these children. The petitioner, the grantor of the trust, was legally obligated to support his minor daughters. However, the guardian of the children only spent $3,734.39 on their support during 1943. The trust agreement stipulated that any excess income not used for the children's support should be accumulated for future use.

Procedural History

The Commissioner of Internal Revenue determined that the entire $4,067.71 distributed by the trustee was includible in the petitioner's net income under Section 167(c) of the Internal Revenue Code. The petitioner contested this determination, arguing that only the amount actually spent on the children's support ($3,734.39) should be taxable to him. The case was brought before the Tax Court for resolution.

Issue(s)

Whether, under Section 167(c) of the Internal Revenue Code, the grantor of a trust is taxable on the entire amount of trust income distributed by the trustee for the support of the grantor's minor children, or only on the portion of that income actually spent on their support during the taxable year.

Holding

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Yes, because Section 167(c) taxes the grantor on trust income to the extent it is distributed for the support of beneficiaries whom the grantor is legally obligated to support, and the actions of the trustee in distributing the funds are determinative, not the subsequent application of those funds by the guardian.

Court's Reasoning

The court emphasized the clear language of Section 167(c), which states that trust income is taxable to the grantor to the extent it is "applied or distributed for the support or maintenance of a beneficiary whom the grantor is legally obligated to support or maintain." The court highlighted that the trustees distributed $4,067.71 for the support of the children. It explicitly stated, "We are concerned with what the trustees did, and not what the guardian did." The court dismissed the argument that the guardian's retention of a portion of the funds affected the taxability, reasoning that the statute taxes income to the grantor to the extent it is distributed by the trustees. The court also noted that Section 167(c) was enacted to return to the rule approved in G. C. M. 18972, which focused on amounts actually distributed for support.

Practical Implications

This decision clarifies that the key factor in determining taxability under Section 167(c) is the trustee's distribution of funds for support, not the ultimate expenditure of those funds. Legal practitioners must advise trustees to be mindful of the potential tax consequences to the grantor when distributing funds for the support of minor children. This case highlights the importance of careful trust administration and understanding the tax implications of distributions. Later cases have cited *White* to reinforce the principle that the grantor's tax liability is triggered by the distribution for support, even if the funds are not immediately applied for that purpose.

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