13 T.C. 632 (1949)

r
r

When construing a trust instrument to determine whether a grantor intended to create a single trust or multiple trusts, the court will examine the grantor's intent as expressed in the trust document, giving preference to a construction that sustains the validity of the trust under applicable state law regarding the rule against perpetuities.

r
r

Summary

r

The trustees of a trust established in 1930 sought a determination that the trust split into four separate trusts upon the death of the settlor's daughter in 1935, each for the benefit of the settlor's remaining children. The Commissioner of Internal Revenue argued that only one trust existed. The Tax Court held that the settlor intended to create multiple trusts, as this construction avoided violating New York's rule against perpetuities. The court emphasized that when interpreting trust documents, courts should favor constructions that validate the trust and reflect the settlor's intent to create separate beneficial interests.

r
r

Facts

r

Joseph P. Grace established a trust in 1930 for the benefit of his daughter, Nora Grace. The trust stipulated that upon Nora's death without issue, the principal would be divided into equal shares for each of Grace's living children. These shares would be held in trust for each child's benefit, with income distributed to them. Joseph P. Grace and his wife Janet Grace, were the original trustees. Nora Grace died in 1935, survived by four siblings: Joseph P. Grace, Jr., Michael P. Grace, II, Charles Macdonald Grace, and Janet Maureen Grace. The trustees filed separate fiduciary income tax returns for each of the four purported trusts.

r
r

Procedural History

© 2025 SCOTUSreports.com. All rights reserved.

r

The Commissioner assessed deficiencies, arguing that only one trust existed and taxed the income reported on the returns filed for the purported trusts for Charles Macdonald Grace and Janet Maureen Grace, respectively, to the original trust. The trustees petitioned the Tax Court for a redetermination of the deficiencies.

r
r

Issue(s)

r

Whether the trust deed of April 4, 1930, created a single trust or multiple trusts upon the death of Nora Grace.

r
r

Holding

r

Yes, the trust deed created multiple trusts because construing the instrument as creating separate trusts for each of Joseph Grace's children after Nora's death aligns with the settlor's intent and prevents a violation of New York's rule against perpetuities.

r
r

Court's Reasoning

r

The court emphasized that the grantor's intent, as expressed in the trust instrument, is the controlling factor. Because the trust was governed by New York law, the court considered the potential violation of the rule against perpetuities. The court reasoned that if the trust were construed as a single trust with multiple beneficiaries, it could potentially suspend the power of alienation for longer than two lives in being, which would violate New York law. Citing *In re Wells' Will*, the court noted that New York courts favor severing illegal portions of a trust instrument to preserve the settlor's primary intent, especially when the principal can be separated into distinct shares. The court concluded that Grace intended to create separate trusts for each of his children upon Nora's death. This construction validated the trust instrument, aligning with the principle that courts should prefer

© 2025 SCOTUSreports.com. All rights reserved.

interpretations that sustain the validity of a document. As the court stated, “An intent to violate the expressed public policy of the state as declared by statute will never be presumed unless such a result is unavoidable.”

© 2025 SCOTUSreports.com. All rights reserved.