***15 T.C. 261 (1950)***

The transfer of a right to receive future compensation for past services is an assignment of income taxable to the assignor, while the transfer of an entire interest in income-producing property shifts the tax burden to the assignee.

**Summary**

Morris Cohen created a trust, transferring his rights from an agreement with his employer (Interstate Bakeries) regarding patents and from an agreement with others (Nafziger and Sticelber) regarding profits from a license. The Tax Court held that the transfer of rights from the employer agreement was an assignment of income (taxable to Cohen), while the transfer of rights from the Nafziger-Sticelber agreement was an assignment of income-producing property (not taxable to Cohen). The court also held the trust income was not taxable to Cohen under the Clifford doctrine because he did not retain enough control over the trust.

**Facts**

Cohen, an industrial engineer at Interstate Bakeries, had an agreement where inventions made during his employment became Interstate's property, with Cohen receiving half of the net profits from their exploitation by outside parties. Cohen also had an agreement with Nafziger and Sticelber regarding profits from a license to manufacture and sell a dough-processing machine. Cohen created a trust for his wife and daughter, transferring his rights under both agreements to himself as trustee.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in Cohen's income tax for 1944-1946, arguing the trust income was taxable to Cohen. Cohen petitioned the Tax Court, contesting the deficiencies. The Tax Court partly upheld and partly overturned the Commissioner's determination.

**Issue(s)**

1. Whether Cohen's transfer of his rights under the agreement with Interstate Bakeries was an assignment of income or of income-producing property.
2. Whether Cohen's transfer of his rights under the agreement with Nafziger and Sticelber was an assignment of income or of income-producing property.
3. Whether Cohen retained enough control over the trust to be taxed on its income under the *Clifford* doctrine.

**Holding**

1. Yes, because the agreement represented compensation for past services, thus the transfer was an assignment of income.

© 2025 SCOTUSreports.com. All rights reserved. 

2. No, because Cohen transferred his entire equitable interest in the license, which constituted income-producing property.
3. No, because Cohen did not retain sufficient control over the trust to warrant taxation under the *Clifford* doctrine.

**Court's Reasoning**

The court reasoned that the agreement with Interstate Bakeries was essentially a right to receive additional compensation for past services, thus its transfer was an assignment of income under *Helvering v. Eubank*. The court determined the agreement with Nafziger and Sticelber represented Cohen's equitable interest in a joint venture exploiting a license. Quoting *Blair v. Commissioner*, the court emphasized that assigning all interest in income-producing property shifts the tax burden, unlike assigning a right to future income from retained property. The court found Cohen intended to transfer his entire interest in the license, citing his gift tax return and testimony. Regarding the *Clifford* doctrine, the court distinguished this case from *Stockstrom v. Commissioner*, noting Cohen's limited discretion over income distribution and the lack of excessively broad powers over the trust.

The court stated: "The law is clear that where a taxpayer merely assigns his right to future income on property he retains, he is taxable thereon, whereas if he assigns all his interest in the income-producing property, he escapes taxation on the future income which it produces."

**Practical Implications**

This case clarifies the distinction between assigning income versus assigning income-producing property for tax purposes. It highlights the importance of examining the substance of a transaction, rather than its form, to determine its tax implications. For attorneys, it emphasizes the need to carefully draft trust instruments and related documents to ensure the intended tax consequences are achieved. Subsequent cases have cited *Cohen* for its articulation of the assignment of income doctrine and its application to various factual scenarios involving trusts and other property transfers. This case provides a framework for analyzing whether a taxpayer has truly relinquished control over income-producing assets.

© 2025 SCOTUSreports.com. All rights reserved. 