16 T.C. 962 (1951)

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A gift of income from a trust is considered a gift of a future interest, not eligible for the gift tax exclusion, when the beneficiary's right to receive the income is contingent upon the discretion of another person.

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Summary

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Willis D. Wood created a trust for his minor grandson, with the income payable at the discretion of the child's father and the corpus distributed when the grandchild turned 21. Wood claimed a gift tax exclusion for a present interest in the trust's income. The Commissioner of Internal Revenue denied the exclusion, arguing it was a future interest. The Tax Court agreed with the Commissioner, holding that because the trustee's obligation to distribute income depended on the father's request, the beneficiary's right to the income was not a present interest, and therefore did not qualify for the gift tax exclusion.

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Facts

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On November 30, 1944, Willis D. Wood established a trust with the Title Guarantee and Trust Company as trustee for the benefit of his grandson, Willis A. Wood, who was less than one year old. The trust was to terminate when Willis A. Wood reached 21, at which time the corpus and accumulated income would be distributed to him. The trust agreement stipulated that the trustee would pay the beneficiary so much of the net income as requested in writing by Robert M. Wood, the beneficiary's father, with total annual payments not exceeding the net income for that year. Any undistributed income was to be accumulated until the trust's termination. The petitioner made cash payments to the trust on November 30, 1944 ($3,000) and January 3, 1945 ($2,000).

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Procedural History

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The Commissioner determined deficiencies in Wood's gift tax for 1944 and 1945. Wood petitioned the Tax Court, arguing that the gifts to the trust included a present interest in income eligible for the gift tax exclusion under Section 1003(b)(3) of the Internal Revenue Code. The Commissioner denied the exclusion, contending the gifts were future interests. The case was submitted to the Tax Court under the pleadings.

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Issue(s)

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Whether the gifts to the trust, specifically the income interest, constituted a gift of a present interest, thereby qualifying for the gift tax exclusion under Section 1003(b)(3) of the Internal Revenue Code.

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Holding

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No, because the beneficiary's right to receive trust income was contingent upon the discretion of his father, Robert M. Wood, to request such payments from the trustee; therefore, the gift of trust income was a gift of a future interest.

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Court's Reasoning

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The Court reasoned that to qualify for the gift tax exclusion under Section 1003(b)(3), the donee must have the

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