Miller v. Commissioner, 6 T.C. 103 (1946)

A grantor is not taxable on the income of an irrevocable, short-term charitable trust where the grantor retains no significant control over the trust's assets or income and the income is not applied for the benefit of the grantor or their family.

Summary

The petitioners, Miller, created trusts benefiting a charitable foundation. The trusts were initially for five years but were extended to nine years. The Commissioner argued that because the trusts were for less than ten years, the trust income was taxable to the grantors under Section 22(a) of the Internal Revenue Code and the doctrine of *Helvering v. Clifford*. The Tax Court held that the trust income was not taxable to the grantors because they retained no significant control over the trusts, the trusts were for a charitable purpose, and the income did not benefit the grantors or their family.

Facts

The petitioners established irrevocable trusts on December 1, 1941, with a term of five years, benefiting the Foundation, a recognized charitable corporation. On December 1, 1942, the trusts were extended to December 1, 1951, making them irrevocable for nine years from the date of extension. The Foundation used the trust income to establish a home for the aged. The petitioners were not on the Foundation's board and did not control its decisions. Only three of the nine board members were related to the petitioners. The Foundation had complete control over the trust administration and distributions.

Procedural History

The Commissioner determined deficiencies in the petitioners' income tax, including dividends from the trust as taxable income to the grantors. The petitioners challenged the Commissioner's determination in the Tax Court. The Commissioner conceded that dividends from other shares in a 10-year trust were not taxable, but maintained the taxability of the 9-year trust dividends.

Issue(s)

1. Whether the dividends received by the trusts are taxable income to the grantor-petitioners under Section 22(a) of the Internal Revenue Code and the doctrine of *Helvering v. Clifford*, given that the trusts were for a charitable purpose and lasted for nine years.

Holding

1. No, the dividends are not taxable to the grantors because the grantors retained no significant control over the trusts, the trusts were for a charitable purpose,

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and the income did not benefit the grantors or their family.

Court’s Reasoning

The court relied on prior cases involving short-term charitable trusts, such as *Mary Louise Bok* and *United States v. Pierce*, to distinguish the case from *Helvering v. Clifford*. In *Bok*, the court held that the settlor was not taxable on the income of a charitable trust, even though it was initially for a short term, because the settlor retained no control and the income benefited a charitable corporation. The court quoted *Bok*, stating that taxing the settlor in such circumstances

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