28 T.C. 78 (1957)

A trust can be recognized as a valid partner in a family partnership for tax purposes if the trustee acts independently and the partnership was formed with a genuine business purpose.

Summary

Parkin created trusts for his children and made the trusts partners in his business. The Commissioner argued that Parkin retained too much control over the trusts and that they should not be recognized as valid partners for tax purposes, meaning all partnership income should be taxed to Parkin. The Tax Court disagreed, finding that the trustee acted independently, contributed to the business, and the partnership was formed with a genuine business purpose, therefore the trust was a valid partner. This case clarifies the factors considered when determining the validity of family partnerships involving trusts for tax purposes.

Facts

Harry W. Parkin (petitioner) created trusts for his children, naming an independent third party as trustee. The trusts became partners in Parkin's auto business, Louis-White Motors, and a related sales company, L-W Sales Company. The trust agreement vested full management and control powers in the trustee. The agreement specifically prohibited the use of trust corpus or income for the petitioner's benefit, his family's benefit, or to satisfy his legal obligations. The trustee actively participated in the operation of the partnership, secured credit for the business, made suggestions for expansion, and obtained agency contracts for automobile accessories.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioner's income tax for the taxable years, taxing all of the partnership income to the petitioner. The petitioner challenged the Commissioner's determination in the Tax Court.

Issue(s)

Whether the trusts created by the petitioner were valid partners in Louis-White Motors and L-W Sales Company for federal income tax purposes, or whether the petitioner retained such control over the trusts that the partnership income should be taxed to him directly?

Holding

No, the trusts were valid partners because the trustee exercised independent control over the trusts and the partnerships were formed with a genuine business

© 2025 SCOTUSreports.com. All rights reserved.

purpose.

Court’s Reasoning

The Tax Court found that the trustee had full and complete powers of management and control over the trust assets. The trust agreement specifically prohibited the use of trust corpus or income for the petitioner’s benefit. The trustee actively participated in the operation of the partnership and was not subservient to the petitioner’s wishes. The court emphasized that the trustee secured credit for the business, made suggestions for expansion, and obtained agency contracts, all of which demonstrated his independent management. Citing *Commissioner v. Culbertson, 337 U.S. 733 (1949)*, the court concluded that the petitioner and the trustee

© 2025 SCOTUSreports.com. All rights reserved.