***18 T.C. 726 (1952)***

A trust can be a valid partner in a family partnership for tax purposes if the parties, acting in good faith and with a business purpose, intend to join together in the present conduct of the enterprise, and the trust genuinely owns its partnership interest.

**Summary**

Thomas Brodhead created a trust for his children, making it a special partner in his business. His wife later created a second trust, which bought out the first trust's partnership interest. The Commissioner argued the partnership was invalid and sought to tax all income to the Brodheads. The Tax Court held the trusts were bona fide partners because the parties intended to join together in the business, capital was a material income-producing factor, and the settlors did not retain excessive control.

**Facts**

Thomas Brodhead operated a wholesale merchandise business. Concerned about his health and wanting to provide for his children, he created a trust in 1942 for their benefit, naming Mortimer Glueck and Bishop Trust Company as trustees. The trust's corpus consisted of a 50% interest in Brodhead's business. A special partnership, T.H. Brodhead Co., was formed between Brodhead (as general partner) and the trust (as special partner). In 1943, Elizabeth Brodhead created a second trust, funded with a $10,000 gift from Thomas, which purchased the first trust's partnership interest. The partnership continued, later becoming Ace Distributors, and then a corporation.

**Procedural History**

The Commissioner of Internal Revenue determined deficiencies in the Brodheads' income tax, arguing the partnership was not valid for tax purposes and attributing all partnership income to them. The Brodheads petitioned the Tax Court for a redetermination. The Commissioner also argued the statute of limitations did not bar assessment for 1943 due to an omission of income exceeding 25% of gross income.

**Issue(s)**

1. Whether the successive trusts were bona fide partners in the T.H. Brodhead Co. (later Ace Distributors) partnership for federal income tax purposes.

2. Whether the income reported by the trusts is taxable to the petitioners under the rationale of *Helvering v. Clifford*, 309 U.S. 331 (1940), due to retained control.

**Holding**

© 2025 SCOTUSreports.com. All rights reserved. 

1. Yes, because the parties, acting in good faith and with a business purpose, intended to join together in the present conduct of the enterprise.

2. No, because the settlors did not retain sufficient control over, or interest in, the trusts to make the trust income taxable to them.

**Court's Reasoning**

The Tax Court emphasized that the ultimate factual question is whether the parties intended to join together in the present conduct of the enterprise. Citing *Commissioner v. Culbertson*, 337 U.S. 733 (1949), the court found the Brodheads acted in good faith and with a business purpose in forming the partnership to ensure the business's continuity and their family's welfare. Capital was a material income-producing factor, and the trusts contributed capital that originated with the petitioners. The court distinguished this case from *Helvering v. Clifford*, noting the long-term nature of the trusts, the independent trustees, the lack of settlor control over income distribution, and the absence of a reversion to the settlors. The court emphasized that the trusts were the true owners of their partnership interests, and any powers Brodhead retained were those of a managing partner, exercised in a fiduciary capacity. The court found no evidence Brodhead's compensation was unreasonable or that he abused his position to deprive the trusts of their rightful share of income.

**Practical Implications**

This case provides guidance on establishing valid family partnerships involving trusts for income tax purposes. It emphasizes the importance of demonstrating a genuine intent to conduct a business together, that the trust has real ownership of its partnership interest, and that the settlor's control is not so substantial as to make them the virtual owner of the trust assets. Lawyers structuring such partnerships should ensure independent trustees, reasonable compensation for the managing partner, and adherence to fiduciary duties. It illustrates that restrictions on a limited partner's control are normal and do not necessarily invalidate the partnership. While the 1951 Revenue Act codified many of these principles, *Brodhead* demonstrates they were relevant even before the formal legislation.

© 2025 SCOTUSreports.com. All rights reserved. 