McDonald v. Commissioner, 19 T.C. 672 (1953)

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Assets transferred to a trust are includible in the grantor's gross estate unless transferred for adequate consideration, and trust income is taxable to the grantor if the grantor retains control or the ability to receive income from the trust.

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Summary

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The Tax Court addressed whether assets transferred to a trust by the decedent were includible in his gross estate for estate tax purposes and whether the trust income was taxable to him for income tax purposes. The court held that the decedent was the grantor of the trust, but only the excess of the fair market value of the trust assets over the value of the children's right to support was includible in the gross estate. The court also held that the trust income was taxable to the decedent because he retained powers to alter the trust and his ex-wife did not have a substantial adverse interest.

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Facts

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The decedent, McDonald, and his wife, Lenore, lived in Idaho (a community property state) from 1913 to 1917, acquiring some Penney stock. After moving to non-community property states, McDonald continued to acquire Penney stock, holding a significant amount by 1930. In 1930, he established Trust 924, placing 12,000 shares of Penney stock into it, later adding 500 more shares. The trust was primarily for the benefit of their two children, Delos and Nedra. A property settlement in 1931 transferred 5,500 shares from the trust to Lenore. McDonald retained significant powers to alter, amend, or revoke the trust with Lenore's consent. The IRS sought to include the entire value of the trust assets in McDonald's gross estate and to tax the trust income to him.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in the decedent’s estate tax and income tax. The estate and the beneficiaries of the trust petitioned the Tax Court for redetermination of the deficiencies.

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Issue(s)

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1. Whether the decedent

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