Ethel M. Gavit, 10 T.C. 757 (1948)

A lump-sum gift from a trust, payable in any event out of income or principal, is not considered income to the beneficiary, whereas a gift of income from property is included in the beneficiary's gross income.

Summary

The case concerned the tax treatment of a $7,000 gift received by the petitioner, Ethel M. Gavit, from a trust. The central issue was whether this payment constituted a lump-sum gift, which would not be taxable, or income from property, which would be taxable under Section 22(b)(3) of the Internal Revenue Code. The court examined the trust indenture to determine the grantor's intent regarding the nature of the payment. The court held that the payment was intended as a lump-sum gift, payable regardless of income, and therefore excluded from the petitioner's gross income. This ruling distinguishes between gifts of income, which are taxable, and gifts of a specific sum, which are not, even if paid out of income or principal.

Facts

Ethel M. Gavit received a $7,000 payment from a trust established by her aunt. The trust indenture specified certain gifts to relatives, including Gavit, and stated these gifts were immediate charges against the trust property. The trust instrument indicated that the payments "may" be paid from principal if income was insufficient. The Commissioner of Internal Revenue contended that the payment was payable out of income from the trust, making it taxable. Gavit argued the payment was a lump-sum gift, not taxable income. The court reviewed the terms of the trust to determine the nature of the gift.

Procedural History

The case began in the United States Tax Court. The Commissioner of Internal Revenue asserted a tax deficiency against Gavit, arguing the $7,000 payment was taxable income. Gavit contested the assessment, claiming the payment was a non-taxable gift. The Tax Court reviewed the facts, examined the trust indenture, and issued a ruling in favor of Gavit, holding the payment to be a lump-sum gift and therefore not includable in gross income.

Issue(s)

1. Whether the $7,000 payment received by the petitioner from the trust constituted a lump-sum gift?

2. Whether the $7,000 payment was excludable from the petitioner's gross income under Section 22(b)(3) of the Internal Revenue Code?

Holding

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1. Yes, because the court determined the grantor intended the payment as a lump-sum gift.

2. Yes, because the lump-sum payment was payable regardless of income or principal, it was excludable from gross income.

Court’s Reasoning

The court’s reasoning centered on interpreting the grantor’s intent as evidenced by the trust indenture. The court noted the difference in tax consequences under section 22(b)(3) of the Internal Revenue Code between income from property and a lump-sum gift. The court applied the rule that a gift of income from property is included in the beneficiary’s gross income, but a lump-sum payment payable, in any event, out of income or corpus, is not. The court considered the indenture’s language, particularly the use of the word

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