***26 T.C. 77 (1956)***

A taxpayer's domicile determines whether income is considered community property, impacting the allocation of tax liability between spouses, even when they live apart, but the court may consider a divorce decree's property division as controlling in tax disputes.

**Summary**

In *Owens v. Commissioner*, the U.S. Tax Court addressed whether a wife was liable for community property taxes based on her husband's income earned in Texas, a community property state, even though she resided in California. The court considered whether the husband was domiciled in Texas and whether the divorce decree from the Texas court was dispositive of the tax issue. The court held that the husband's domicile was in Texas, creating community property income. Furthermore, the court found that a prior Texas divorce decree, which divided the community property, was binding on the Tax Court. Finally, the court determined the taxability of trust income and found that trust income distributed to the couple was taxable, while undistributed income was not.

**Facts**

Marie R. Owens (Petitioner) and her husband, Leo E. Owens, were married in 1923 and lived in St. Paul, Minnesota. Leo was a newspaper publisher. In 1939, they stored their furniture and moved to California, residing in rented homes. Leo later purchased newspapers in Texas, taking up residence in Harlingen in 1941 and bringing some of their children to live with him in 1943. Marie remained in California due to health issues. Leo prepared separate income tax returns for himself and Marie, filing them on a community property basis in Texas. Marie provided information for these returns. Leo initiated a divorce action against Marie in Texas, which she contested. A divorce was granted in 1947 after a trial that addressed community property division. Two trusts had been created by the couple, with each spouse the beneficiary of the other's trust. The divorce court construed the trust instruments and required Marie to pay over to the trust income she had improperly received.

**Procedural History**

The Commissioner determined deficiencies in Marie's income tax for 1944 and 1945. Marie claimed overpayments. The U.S. Tax Court was presented with issues relating to domicile, community property, and the tax treatment of trust income. The court needed to determine if the income was reported correctly as community property, and if trust income, whether distributed or not, should be included in taxable income.

**Issue(s)**

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1. Whether Leo Owens was domiciled in Texas during the years 1944 and 1945, thereby rendering his earnings community property subject to division between him and his wife?

2. Whether, regardless of the location of her domicile, Marie Owens was bound by the domicile of her husband for purposes of determining community property income?

3. Whether undistributed income from trusts established by the couple should be included in Marie Owens' taxable income?

**Holding**

1. Yes, because the evidence showed that Leo had established domicile in Texas by 1942 and lived there throughout the taxable years.

2. Yes, because the Texas divorce decree addressed the division of community property, and was binding on the tax court in this matter, and the court found that it included income in question here.

3. No, because the trusts' terms stated that the income distribution was at the trustee's discretion, and thus, Marie was only taxable on income actually distributed to her.

**Court's Reasoning**

The court began by establishing the principle that the location of one's domicile determines the nature of the income (community or separate). The court reviewed the evidence and concluded that Leo Owens had established his domicile in Texas by the early 1940s. The court then addressed Marie's argument that her domicile did not follow her husband's, citing cases holding a wife's domicile follows the husband's for community property determination regardless of her location. The court also determined that the Texas divorce decree, which divided community property, was controlling on the issue of community income, citing *Blair v. Commissioner*. Finally, the court found that, since the income of the trusts was distributable at the discretion of the trustees, and not distributed to the beneficiary, they were not taxable to the beneficiaries, per I.R.C. § 162(c).

The court referenced prior cases. The court cited *Herbert Marshall*, 41 B.T.A. 1064, *Nathaniel Shilkret*, 46 B.T.A. 1163, aff'd. 138 F.2d 925, *Benjamin H. McElhinney, Jr.*, 17 T.C. 7, and *Marjorie Hunt*, 22 T.C. 228 as precedent for the issue of domicile.

**Practical Implications**

This case underscores the importance of domicile in determining income tax liability in community property states. Lawyers and tax professionals must gather sufficient evidence to establish a taxpayer's domicile when advising clients. The case

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illustrates how a divorce decree's characterization of property can influence federal tax liability, emphasizing the need to consider tax consequences when negotiating property settlements. In cases where spouses live apart, the domicile of the spouse earning income remains the relevant factor for the characterization of income. Taxpayers and legal practitioners should carefully review trust instruments to determine when trust income is taxable.

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