***Distler v. Commissioner*, 30 T.C. 595 (1958)**

A grantor is not taxable on trust income unless they retain substantial control over the trust or its income or benefit directly from the income.

Summary

The case concerns the tax liability of a trust beneficiary, Mrs. Distler, for trust income. The IRS argued she was taxable on the entire trust income, while she contended she was only taxable on the income she received. The Tax Court held that she was only taxable on the income distributed to her. The court analyzed whether Mrs. Distler possessed sufficient control over the trust to be deemed the substantial owner or grantor, considering her limited powers over income distribution and the trustees' discretionary power to invade the corpus. The court determined that her powers were insufficient to trigger tax liability on the undistributed income.

Facts

Mrs. Distler was a beneficiary of a trust established by her deceased husband. Under the trust terms, she received a guaranteed annual income. The trustees had discretion to invade the corpus in case of financial need for Mrs. Distler or her children. Mrs. Distler could designate how the excess trust income was divided between her two children, or if she didn't make a designation, the remainder was added to the corpus. The IRS asserted that Mrs. Distler should be taxed on all trust income, including income not distributed to her, under the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Mrs. Distler's income tax for 1951 and 1952, arguing she was taxable on all trust income. Mrs. Distler challenged this determination in the United States Tax Court. The Tax Court ruled in favor of Mrs. Distler, holding she was only taxable on income distributed to her.

Issue(s)

1. Whether Mrs. Distler, as a beneficiary, had such dominion and control over the trust property as to be the substantial owner and therefore taxable on the entire income under Section 22(a) of the Internal Revenue Code of 1939.

2. Whether Mrs. Distler was a "grantor" within the meaning of Sections 166 and 167 of the 1939 Code, and therefore taxable on all the income of the trust.

Holding

1. No, because Mrs. Distler's powers to influence the trust's income were not sufficient to make her the substantial owner of the trust under Section 22(a).

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2. No, because even though Mrs. Distler contributed property to the trust, the income in question was generated by property contributed by her deceased husband, so she was not a grantor as to this specific income.

Court's Reasoning

The court examined whether Mrs. Distler's powers over the trust income and corpus were enough to make her the substantial owner. The court cited *Helvering v. Clifford* to emphasize that the nature and extent of control over the trust income and corpus determine taxability. The court found that Mrs. Distler did not have unfettered control because the trustees had discretion over distributions and the power to invade corpus. The court noted the trust instrument created a standard limiting the trustees' power to invade the corpus, restricting Mrs. Distler's control. In fact, Mrs. Distler had been unsuccessful in litigation to compel the trustees to make payments. The court reasoned that the power to direct income distribution to others, by itself, is not sufficient to trigger taxation. The court concluded that the potential benefits from her limited powers were too speculative to justify taxing her on the entire income, and that she did not possess the necessary dominion over the trust income or corpus.

The court also addressed whether Mrs. Distler was a grantor under Sections 166 and 167 of the 1939 Code. Since she contributed property to the trust, she was, in fact, a grantor to that extent. The court noted that separate records were maintained for the property Mrs. Distler contributed and her husband. Since the income in question came from the husband's property, and not her contributions, she was not considered a grantor for the purpose of taxing that specific income. The court therefore did not need to determine whether she met other requirements under Sections 166 and 167.

The court reasoned that the grantor's control of the trust's assets must be

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