Estate of Mary B. Warburton, Charles Egerton Warburton and Jane Alfred Warburton, Executors, Petitioner, v. Commissioner of Internal Revenue, Respondent. Thomas B. Wanamaker, Jr., Petitioner, v. Commissioner of Internal Revenue, Respondent, 30 T.C. 34 (1958)

Distributions from a trust, representing proceeds from the sale of assets allocated to income under state law, are taxable to the income beneficiaries in the year they were entitled to receive them, even if the trust realized no taxable gain.

Summary

The case involves a dispute over the taxability of distributions from a trust to its income beneficiaries. The trust sold bonds at a loss, and a portion of the proceeds were allocated to income under Pennsylvania law. The Tax Court held that the distributions were taxable income to the beneficiaries in 1947, the year they were entitled to receive the distributions, relying on the *Johnston v. Helvering* precedent. The court also determined that the statute of limitations for assessing deficiencies in the beneficiaries' 1947 taxes was extended under the mitigation provisions of the 1954 Internal Revenue Code. The court's decision emphasized the timing of the right to receive the income and the applicability of specific code sections designed to prevent the government from being time-barred from correcting an error.

Facts

Thomas B. Wanamaker, Jr., and Mary B. Warburton were income beneficiaries of a trust. The trust sold bonds at a loss in 1947, and the proceeds were allocated to the income beneficiaries in 1948 according to a Pennsylvania court order. The beneficiaries did not report their share of the proceeds on their 1947 tax returns. The IRS issued notices of deficiency, asserting that the distributions received in 1948 were taxable in 1947. The case had a prior history where the Tax Court decided that the income was taxable in 1947, not 1948. The court noted that the prior case incorporated all of the relevant facts by reference.

Procedural History

The beneficiaries initially contested the IRS's deficiency notices in the Tax Court. The Tax Court held that the distributions were taxable in 1947. The IRS then filed petitions for review, which were dismissed by stipulation. The IRS subsequently issued new notices of deficiency. The case was consolidated in the Tax Court. The Tax Court reaffirmed its prior holding, determining that the distributions were taxable in 1947 and that the mitigation provisions of the 1954 Internal Revenue Code applied to extend the statute of limitations.

Issue(s)

1. Whether the distributions from the trust constituted taxable income to the beneficiaries.

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2. Whether the mitigation provisions of the 1954 Internal Revenue Code (Sections 1311-1315) applied to allow assessment of a deficiency despite the general statute of limitations.

Holding

1. Yes, because under the precedent of *Johnston v. Helvering*, distributions representing income allocated under state law were taxable to the beneficiaries in 1947, the year they acquired a present right to the distributions, even though the actual distributions occurred in 1948.

2. Yes, because the conditions for applying the mitigation provisions of the 1954 Internal Revenue Code were met, specifically, because of the double exclusion of income.

Court's Reasoning

The court first addressed the taxability of the distributions, relying heavily on the precedent set in *Johnston v. Helvering*. The court found that the facts of the current case were

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