Robert L. Moody Trust UTI 6/13/60, Irwin M. Herz, Jr. , Trustee, Petitioner v. Commissioner of Internal Revenue, Respondent, 65 T. C. 932 (1976)

The settlor's intent, as expressed in the trust instrument, determines whether a single trust or multiple trusts have been created.

Summary

In Robert L. Moody Trust v. Commissioner, the United States Tax Court examined whether a trust instrument executed by Robert L. Moody created a single trust or separate trusts for each of his four children. The court found that despite the trust property being administered as a single fund, the language of the instrument and the settlor's practical administration indicated an intent to establish separate trusts for each child. This decision hinged on the settlor's intent as inferred from the trust instrument's provisions and the filing of separate tax returns for each child's trust, underscoring the importance of clear language and practical application in trust creation.

Facts

Robert L. Moody established a trust on June 13, 1960, initially for his first child, and later amended it to include his subsequently born children. The trust instrument directed the trustee to divide the trust property into equal shares for each child, both during Moody's lifetime and upon his death. Despite these provisions, the trust was managed as a single fund, with no separate books or bank accounts maintained for each child's share. Separate fiduciary income tax returns were filed for each child's trust annually, reflecting the settlor's intent to treat each share as a separate trust.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the trust's federal income tax for the fiscal years ending May 31, 1970, 1971, and 1972, asserting that the trust should be treated as a single entity. The Robert L. Moody Trust, represented by its trustee Irwin M. Herz, Jr. , petitioned the United States Tax Court for a decision on whether the trust instrument created a single trust or separate trusts for each child. The court reviewed the trust instrument and the practical administration of the trust to resolve this issue.

Issue(s)

1. Whether the trust instrument dated June 13, 1960, as amended on June 13, 1961, created a single trust or a separate trust for each of Robert L. Moody's four children.

Holding

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1. Yes, because the language of the trust instrument and the settlor's practical administration of the trust, including the filing of separate tax returns for each child's trust, evidenced an intent to establish separate trusts for each child.

Court's Reasoning

The court determined that the settlor's intent, as expressed in the trust instrument, was to create separate trusts for each child. The court relied on several key elements of the trust instrument, including the directive to divide the trust property into equal parts or shares for each child and the provision allowing each child to become the trustee of their own share upon reaching the age of 25. The court also considered the practical construction given to the trust by the settlor, particularly the filing of separate fiduciary income tax returns for each child's trust, which indicated a treatment of each share as a separate trust. The court concluded that the settlor's intent to create separate trusts was clear despite the trust property being administered as a single fund, citing that the physical division of assets was not necessary to carry out the settlor's intention. The court rejected the Commissioner's arguments that the interdependent interests of the beneficiaries suggested a single trust, finding that the trust instrument's provisions and the settlor's actions supported the creation of multiple trusts.

Practical Implications

This decision underscores the importance of clear language in trust instruments to reflect the settlor's intent regarding the creation of trusts. Practitioners drafting trust instruments should ensure that provisions clearly delineate whether a single or multiple trusts are intended, as this affects the administration and taxation of the trust. The case also highlights that the practical administration of a trust, such as the filing of separate tax returns, can be crucial in interpreting the settlor's intent. For future cases involving similar issues, attorneys should consider both the language of the trust instrument and the settlor's actions in determining whether a trust should be treated as single or multiple entities. This decision may influence how trusts are structured and administered to avoid ambiguity and potential disputes over the number of trusts created.

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