Widener, Trust No. 5 v. Commissioner, 80 T. C. 304 (1983)

Losses from stock sales between trusts are deductible if the transactions are bona fide, even when motivated by tax considerations.

Summary

In Widener, Trust No. 5 v. Commissioner, the U. S. Tax Court held that losses from stock sales between two trusts, with the same income beneficiary but different contingent beneficiaries, were deductible. The trusts sold stocks to each other at market prices to offset capital gains. The court determined the transactions were bona fide, as they permanently changed ownership and the trusts were sufficiently independent, despite sharing a common trustee and income beneficiary. This case clarifies that tax-motivated transactions between trusts can still be valid if they meet the criteria of good faith and finality.

Facts

Peter A. B. Widener Trust No. 5 (PW Trust) and Joseph E. Widener Trust No. 5 (JW Trust) were established by different grantors in 1915 and 1938, respectively. Both trusts had the same income beneficiary, Ella Widener Wetherill, but different contingent beneficiaries. In the fiscal year ending January 31, 1975, to offset capital gains, the PW Trust sold certain stocks at a loss to the JW Trust, and the JW Trust sold certain stocks at a loss to the PW Trust. All transactions were at market prices, executed through a computerized trading service, and resulted in a complete change of ownership of the stocks involved.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the trusts' federal income taxes for the fiscal year ending January 31, 1975, and disallowed the losses from the inter-trust stock sales. The trusts petitioned the U. S. Tax Court for a redetermination of the deficiencies. The Tax Court held in favor of the trusts, allowing the deductions for the losses.

Issue(s)

1. Whether the losses from stock sales between the PW Trust and the JW Trust are deductible under the Internal Revenue Code.

Holding

1. Yes, because the transactions were bona fide sales at market prices that permanently transferred ownership of the stocks, and the trusts were sufficiently independent entities despite having the same income beneficiary.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court applied the principle that deductions for losses are allowed unless disallowed by statute or if the transactions are not bona fide. Section 267 of the Internal Revenue Code did not apply, as the trusts were not related in a manner covered by the statute. The court focused on whether the transactions were bona fide, considering factors such as the finality of the sales, the independence of the trusts, and the absence of control by one party over the other. The court found that the sales were final, at market prices, and that neither trust controlled the other, despite having the same trustee and income beneficiary. The court cited cases where losses were disallowed due to lack of good faith or control, but distinguished those from the present case. The court concluded that the transactions changed the flow of economic benefits due to the different contingent beneficiaries, supporting the bona fide nature of the sales.

Practical Implications

This decision clarifies that losses from inter-trust transactions can be deductible even when motivated by tax considerations, as long as the transactions are bona fide. Practitioners should ensure that such transactions are conducted at market prices, result in a permanent change of ownership, and that the involved trusts are sufficiently independent. The case may encourage trustees to engage in similar tax-planning strategies, but they must be mindful of maintaining the trusts' independence and ensuring the transactions meet the criteria of good faith and finality. Subsequent cases have cited Widener to support the deductibility of losses from bona fide transactions between related parties not covered by specific statutory disallowance provisions.

© 2025 SCOTUSreports.com. All rights reserved.