Estate of John Russell Little, Deceased, Crocker National Bank, Executor, Petitioner v. Commissioner of Internal Revenue, Respondent, 87 T. C. 599 (1986)

A power to invade trust income and corpus for a beneficiary's benefit must relate solely to the beneficiary's health, education, support, or maintenance to avoid being classified as a general power of appointment for estate tax purposes.

Summary

In Estate of Little v. Commissioner, the U. S. Tax Court ruled that the power held by John Russell Little to invade a testamentary trust's income and principal for his own benefit was a general power of appointment under Section 2041 of the Internal Revenue Code. The trust allowed invasion for Little's "proper support, maintenance, welfare, health and general happiness," which the court found broader than the statutory exception for powers limited to health, education, support, or maintenance. The decision clarified that trust invasion powers must be strictly limited to avoid estate tax inclusion, impacting how estate planners draft trust documents to minimize tax liabilities.

Facts

John Russell Little was the sole trustee and beneficiary of a trust created by his late wife, Grace Schaffer Little. The trust permitted Little to invade its income and principal for his "proper support, maintenance, welfare, health and general happiness in the manner to which he is accustomed at the time of the death of Grace Schaffer Little. " Upon Little's death, his estate excluded the trust's assets from his gross estate. The Commissioner of Internal Revenue included these assets, asserting Little held a general power of appointment over them under Section 2041 of the Internal Revenue Code.

Procedural History

The case was submitted to the U. S. Tax Court under Rule 122, with all facts stipulated. The Commissioner determined a deficiency in Little's estate tax, which the estate contested, leading to this litigation. The Tax Court's decision was the final adjudication in this matter.

Issue(s)

1. Whether the power held by John Russell Little to invade the trust's income and principal for his benefit constitutes a general power of appointment under Section 2041(a)(2) of the Internal Revenue Code?

2. Whether the power to invade the trust is excepted from being a general power of appointment under Section 2041(b)(1)(A) because it is limited by an ascertainable standard relating solely to Little's health, education, support, or maintenance?

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. Yes, because the power to invade the trust's income and principal for Little's benefit was exercisable in favor of Little, his estate, his creditors, or the creditors of his estate, fitting the definition of a general power of appointment under Section 2041(a)(2).

2. No, because the power was not limited by an ascertainable standard relating solely to Little's health, education, support, or maintenance, as required by Section 2041(b)(1)(A). The trust's language included "welfare" and "general happiness," which are broader than the statutory exception.

Court's Reasoning

The Tax Court applied Section 2041 of the Internal Revenue Code, which requires the inclusion of property subject to a general power of appointment in the decedent's gross estate. The court determined that Little's power to invade the trust was a general power of appointment because it was exercisable in favor of Little himself. The court then considered whether this power was excepted under Section 2041(b)(1)(A), which requires the power to be limited by an ascertainable standard relating solely to the decedent's health, education, support, or maintenance. The court, looking to California law as applicable to the trust's interpretation, found that the terms "welfare" and "general happiness" in the trust's standard went beyond the statutory exception. The court cited examples like "travel," which could be considered necessary for Little's "general happiness" but not for his health, education, support, or maintenance, to illustrate its point. The court concluded that the trust's standard did not meet the requirements for the exception, thus the trust's assets were correctly included in Little's gross estate.

Practical Implications

This decision underscores the importance of precise language in trust documents to avoid unintended estate tax consequences. Estate planners must ensure that any power to invade trust assets is strictly limited to health, education, support, or maintenance to qualify for the Section 2041(b)(1)(A) exception. The ruling impacts how similar trusts should be drafted and interpreted, potentially leading to increased scrutiny and challenges by the IRS regarding the inclusion of trust assets in a decedent's estate. It also serves as a reminder of the necessity to consider state law interpretations when drafting trusts, as these can affect federal tax treatment. Subsequent cases involving trust invasion powers have cited Estate of Little to support arguments about the scope of general powers of appointment and the necessity of clear, restrictive standards to avoid estate tax inclusion.

© 2025 SCOTUSreports.com. All rights reserved.