Ann Jackson Family Found. v. Commissioner, 97 T. C. 534 (1991)

Distributions from a split-interest trust to a private foundation do not increase the foundation's distributable amount for purposes of the mandatory distribution requirement under section 4942 of the Internal Revenue Code.

Summary

The Ann Jackson Family Foundation, a private nonoperating foundation, received annual distributions from a split-interest trust. The IRS argued that these distributions should increase the foundation's distributable amount, thereby triggering excise taxes for failure to distribute sufficient income. The Tax Court invalidated the regulation that supported the IRS's position, ruling that the statutory language of section 4942, which bases distributable amount solely on minimum investment return, did not support the regulation's expansion to include trust distributions. Consequently, the foundation was not liable for the excise taxes or related additions for the years in question.

Facts

Ann Gavit Jackson established The Ann Jackson Family Charitable Trust in 1979, funding it with $5 million. The trust was required to distribute $350,000 annually to The Ann Jackson Family Foundation, a private nonoperating foundation, for 20 years. The trust qualified as a split-interest trust under section 4947(a)(2). The IRS assessed excise taxes against the foundation for the tax years ending May 31, 1984, through May 31, 1987, claiming the trust distributions should increase the foundation's distributable amount under section 4942.

Procedural History

The IRS determined deficiencies and additions to the foundation's federal excise tax for the years in question. The foundation petitioned the U. S. Tax Court, contesting the IRS's position. The Tax Court, after reviewing the case fully stipulated under Rule 122(a), ruled in favor of the foundation, invalidating the regulation that supported the IRS's argument.

Issue(s)

1. Whether the distributions from the split-interest trust should be included in the foundation's distributable amount under section 4942(d), thereby subjecting the foundation to excise taxes for failure to distribute income.
2. Whether the foundation is liable for additions to tax under section 6651(a)(1) for failure to file a tax return on Form 4720.

Holding

1. No, because the regulation increasing the distributable amount by including trust

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distributions was invalid as an unwarranted extension of the statutory provision defining distributable amount in terms of minimum investment return.
2. No, because the foundation was not liable for excise taxes, and thus, no additions to tax were warranted for failure to file Form 4720.

Court's Reasoning

The court found that the regulation in question was an interpretative regulation, not a legislative one, and thus not entitled to a high degree of deference. The court emphasized that the statutory language of section 4942(d) defines distributable amount solely in terms of minimum investment return, which is calculated as a percentage of the foundation's assets. The regulation's attempt to include trust distributions in the distributable amount was seen as an unauthorized amendment to the statute. The court also considered the legislative history, noting Congress's intent to relieve split-interest trusts from mandatory distribution requirements applicable to private foundations. The court rejected the IRS's argument that the regulation was necessary to ensure the current use of income for charitable purposes, stating that such a purpose was not sufficiently supported by the statutory language.

Practical Implications

This decision clarifies that distributions from split-interest trusts to private foundations do not affect the foundation's distributable amount under section 4942. Practitioners should ensure that their clients' private foundations do not include such distributions when calculating their mandatory distribution requirements. The ruling may prompt Congress to revisit the statutory language if it wishes to impose stricter distribution requirements on foundations receiving income from split-interest trusts. Foundations can rely on this decision to avoid excise taxes related to such distributions, and it may influence future cases involving the interpretation of regulations that attempt to expand statutory provisions.

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