irwIn Vs. Gavit

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Appeal No. : 268 U.S. 161

Appellant : irwin

Respondent : Gavit

Judgement :

Irwin v. Gavit - 268 U.S. 161 (1925)
U.S. Supreme Court Irwin v. Gavit, 268 U.S. 161 (1925)

Irwin v. Gavit

No. 325

Argued April 15, 1925

Decided April 27, 1925

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CERTIORARI TO THE CIRCUIT COURT OF APPEALS

FOR THE SECOND CIRCUIT

SYLLABUS

1. A will provided that the income from a fund in trust should be applied to the education and support of the testator's granddaughter so far as the trustees deemed proper, and that the balance of it should be divided into two equal parts, one of which should be paid to the plaintiff in equal, quarter-yearly installments during his life. On the granddaughter's reaching the age of twenty-one or dying, the fund was to go over, so that, considering her age, the plaintiff's interest could not exceed fifteen years. *Held* that the sums paid the plaintiff were taxable income within the meaning of the Constitution, and of the Income Tax Act of October 3, 1913, which taxed "the entire net income arising or accruing . . . to every citizen of the United States" and defined net income as

"gains or profits and income derived from any source whatever, including the income from but not the value of property acquired by gift, bequest, devise, or descent."

P. 268 U. S. 166 .

2. The provision of the above act exempting bequests assumes the gift of a corpus, and contrasts it with the income arising from it, but was not intended to exempt income, properly so called, simply because of a severance between it and the principal fund. P. 268 U. S. 167 .

3. The rule that tax laws shall be construed favorably for the taxpayers is not a reason for creating or exaggerating doubts of their meaning. P. 268 U. S. 168 .

295 F. 84 reversed.

Certiorari to a judgment of the Circuit Court of Appeals affirming a judgment for the plaintiff in an action to recover taxes and penalties exacted under an income tax law. *See* 275 F. 643.

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MR. JUSTICE HOLMES delivered the opinion of the Court.

This is a suit to recover taxes and penalties exacted by the Collector under the Income Tax Act of October 3, 1913, c. 16, Section II, A, subdivisions 1 and 2; B, D, and

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E, 38 Stat. 114, 166 *et seq.* The Collector demurred to the complaint. The demurrer was overruled and judgment given for the plaintiff by the district court, 275 F. 643, and the circuit court of appeals, 295 F. 84. A writ of certiorari was granted by this Court. 264 U.S. 579.

The question is whether the sums received by the plaintiff under the will of Anthony N. Brady in 1913, 1914, and 1915, were income, and taxed. The will, admitted to probate August 12, 1913, left the residue of the estate in trust to be divided into six equal parts, the income of one part to be applied so far as deemed proper by the trustees to the education and support of the testator's granddaughter, Marcia Ann Gavit, the balance to be divided into two equal parts and one of them to be paid to the testator's son-in-law, the plaintiff, in equal quarter-yearly payments during his life. But, on the granddaughter's reaching the age of twenty-one or dying, the fund went over, so that, the granddaughter then being six years old, it is said, the plaintiff's interest could not exceed fifteen years. The courts below held that the payments received were property acquired by bequest, were not income, and were not subject to tax.

The statute, in Section II, A, subdivision 1, provides that there shall be levied a tax "upon the entire net income arising or accruing from all sources in the preceding calendar year to every citizen of the United States." If these payments properly may be called income by the common understanding of that word and the statute has failed to hit them, it has missed so much of the general purpose that it expresses at the start. Congress intended to use its power to the full extent. *Eisner v. Macomber,* 252 U. S. 189 , 252 U. S. 203 . By B, the net income is to include

"gains or profits and income derived from any source whatever, including the income from but not not the value of property acquired by gift, bequest, devise or descent.

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By D, trustees are to make 'return of the net income of the person for whom they act, subject to this tax,' and by D, trustees and others having the control or payment of fixed or determinable gains, etc., of another person who are required to render a return on behalf of another are 'authorized to withhold enough to pay the normal tax.' The language quoted leaves no doubt in our minds that, if a fund were given to trustees for A for life with remainder over, the income received by the trustees and paid over to A would be income of A under the statute. It seems to us hardly less clear that, even if there were a specific provision that A should have no interest in the corpus, the payments would be income nonetheless within the meaning of the statute and the Constitution and by popular speech. In the first case, it is true that the bequest might be said to be of the corpus for life, in the second, it might be said to be of the income. But we think that the provision of the act that exempts bequests assumes the gift of a corpus and contrasts it with the income arising from it, but was not intended to exempt income property so-called simply because of a severance between it and the principal fund. No such conclusion can be drawn from *Eisner v. Macomber,* 252 U. S. 189 , 252 U. S. 206 -207. The money was income in the hands of the trustees, and we know of nothing in the law that prevented its being paid and received as income by the donee."

The courts below went on the ground that the gift to the plaintiff was a bequest, and carried no interest in the corpus of the fund. We do not regard those considerations as conclusive, as we have said, but, if it were material, a gift of the income of a fund ordinarily is treated by equity as creating an interest in the fund. Apart from technicalities, we can perceive no distinction relevant to the question before us between a gift of the fund for life and a gift of the income from it. The fund is appropriated

to the production of the same result whichever form the gift takes. Neither are we troubled by the question where to draw the line. That is the question in pretty much everything worth arguing in the law. *Hudson County Water Co. v. McCarter,* 209 U. S. 349 , 209 U. S. 355 . Day and night, youth and age, are only types. But the distinction between the cases put of a gift from the corpus of the estate payable in installments and the present seems to us not hard to draw, assuming that the gift supposed would not be income. This is a gift from the income of a very large fund, as income. It seems to us immaterial that the same amounts might receive a different color from their source. We are of opinion that quarterly payments, which it was hoped would last for fifteen years, from the income of an estate intended for the plaintiff's child must be regarded as income within the meaning of the Constitution and the law. It is said that the tax laws should be construed favorably for the taxpayers. But that is not a reason for creating a doubt or for exaggerating one when it is no greater than we can bring ourselves to feel in this case.

Judgment reversed.

MR. JUSTICE SUTHERLAND, dissenting.

By the plain terms of the Revenue Act of 1913, the value of property acquired by gift, bequest, devise, or descent is not to be included in net income. Only the income derived from such property is subject to the tax. The question, as it seems to me, is really a very simple one. Money, of course, is property. The money here sought to be taxed as income was paid to respondent under the express provisions of a will. It was a gift by will -- a bequest. *United States v. Merriam,* 263 U. S. 179 , 263 U. S. 184 . It therefore fell within the precise letter of the statute, and, under well settled principles, judicial inquiry may go no further. The taxpayer is entitled to the

rigor of the law. There is no latitude in a taxing statute; you must adhere to the very words. *United States v. Merriam, supra,* p. 263 U. S. 187 -188.

The property which respondent acquired being a bequest, there is no occasion to ask whether, before being handed over to him, it had been carved from the original corpus of, or from subsequent additions to, the estate. The corpus of the estate was not the legacy which respondent received, but merely the source which gave rise to it. The money here sought to be taxed was not the fruits of a legacy; it was the legacy itself. *Matter of Stanfield,* 135 N.Y. 292, 294.

With the utmost respect for the judgment of my brethren to the contrary, the opinion just rendered, I think without warrant, searches the field of argument and inference for a meaning which should be found only in the strict letter of the statute.

MR. JUSTICE BUTLER concurs in this dissent.