

Moitoret v. Commissioner, 7 T.C. 640 (1946)

Alimony payments are fully includible in the recipient's gross income for tax purposes unless the divorce decree or separation agreement explicitly designates a specific portion of the payment as child support.

Summary

Dora Moitoret received monthly payments from her former husband for her support and the support of their minor children, as stipulated in a separation agreement and confirmed in a divorce decree. The Tax Court addressed whether these alimony payments were taxable to Ms. Moitoret. The court held that because neither the agreement nor the decree specifically designated a portion of the payments as child support, the entire amount was taxable as income to Ms. Moitoret under Section 22(k) of the Internal Revenue Code. The court emphasized that the statute requires explicit designation to shift the tax burden for child support payments to the payor, and absent such designation, the recipient of the alimony is taxed on the full amount, regardless of actual usage.

Facts

In 1939, Dora H. Moitoret and her husband, Anthony F. Moitoret, entered into a property settlement agreement in contemplation of separation. They had four minor children. The agreement stipulated that Anthony would pay Dora \$250 monthly for her care and support and the care and support of their children.

In 1941, an interlocutory divorce decree was issued by the Superior Court of Washington, King County, which confirmed the property settlement agreement regarding both property division and child and spousal support, subject to potential modification by either party.

A final divorce decree was entered in 1942. Pursuant to the agreement and decree, Dora received \$250 per month in 1943, totaling \$3,000 annually. She did not include this amount in her 1943 income tax return. The Commissioner of Internal Revenue determined that this \$3,000 was includible in Dora's gross income, leading to a tax deficiency.

Procedural History

Dora H. Moitoret petitioned the United States Tax Court to challenge the Commissioner's determination that the alimony payments were taxable income. This case represents the Tax Court's initial determination on the matter.

Issue(s)

1. Whether alimony payments received by Dora Moitoret in 1943 are includible in her gross income under Section 22(k) of the Internal Revenue Code, when the

payments were intended for both her support and the support of her minor children, but the divorce decree and separation agreement did not specifically designate a portion for child support.

Holding

1. Yes. The Tax Court held that the alimony payments are fully includible in Dora Moitoret's gross income because Section 22(k) of the Internal Revenue Code mandates that only the portion of alimony payments specifically designated for child support in the divorce decree or written agreement is excluded from the recipient's taxable income. As no such specific designation was made, the entire amount is taxable to Dora.

Court's Reasoning

The Tax Court based its reasoning directly on the language of Section 22(k) of the Internal Revenue Code, which was added by the Revenue Act of 1942. This section explicitly taxes alimony payments to the recipient spouse unless the decree or written instrument "fix[es], in terms of an amount of money or a portion of the payment, as a sum which is payable for the support of minor children of such husband." The court noted that the separation agreement and divorce decree referred to payments for "her care and support and the care and support of said minor children" without specifying any amount exclusively for child support.

The court cited Treasury Regulations supporting the Commissioner's view that absent a specific designation for child support, the entire payment is taxable to the wife. The court also referenced *Robert W. Budd*, 7 T.C. 413, which similarly interpreted Section 22(k). The court rejected Dora Moitoret's argument that she used the funds solely for child support, stating that the statute's requirement for specific designation in the legal documents is controlling, not the actual use of the funds.

The Court stated: "Section 22 (k), Internal Revenue Code taxes alimony payments to the wife except where the decree or other written instrument has fixed, in terms of an amount of money or a portion of a payment, a sum which is payable for the support of the minor children of the husband. In such case the amount so fixed is not included as income of the wife but is taxed to the husband."

Practical Implications

Moitoret v. Commissioner establishes a clear rule regarding the taxability of alimony and the necessity of specific designation for child support payments in divorce decrees and separation agreements. This case underscores that broad language encompassing both spousal and child support, without a clear allocation, will result in the entire payment being taxed as income to the alimony recipient.

For legal practitioners, this case serves as a critical reminder to draft divorce and

separation agreements with precise language, especially concerning alimony and child support. To ensure that child support portions of payments are not taxed to the recipient spouse, legal documents must explicitly state the amount or portion intended for child support. Failure to do so will result in the entire alimony payment being considered taxable income for the recipient, regardless of how the funds are actually spent. This principle remains relevant in modern tax law and practice, highlighting the enduring importance of clarity and specificity in marital settlement agreements and divorce decrees regarding support payments.