8 T.C. 309 (1947)

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A taxpayer cannot deduct a loss or bad debt based on the compromise of a property settlement in a divorce decree if the underlying obligation lacks a demonstrated legal basis separate from the divorce itself.

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Summary

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W. Thomas and Florence Menefee petitioned the Tax Court, contesting the Commissioner's denial of a $7,178.50 deduction claimed by Florence relating to a compromised divorce settlement. The settlement, incorporated into her divorce decree, involved her ex-husband delivering Sears Roebuck stock to her over time as 'alimony in gross.' When he failed to deliver all the shares, she compromised for fewer shares due to his financial difficulties, then claimed a loss for the value of the undelivered stock. The Tax Court upheld the Commissioner's disallowance, finding no independent legal obligation beyond the divorce settlement to support a loss or bad debt deduction.

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Facts

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Florence Menefee divorced L. Montefiore Stein in 1934. As part of their divorce settlement, Stein agreed to deliver 1,184 shares of Sears, Roebuck & Co. stock to Menefee over six years, characterized as "alimony in gross." Menefee claimed Stein managed her investments and owed her the stock's value. By 1941, Stein had not delivered 298 shares due to financial difficulties. Menefee then agreed to accept 200 shares in full settlement of the remaining obligation. In her 1941 tax return, she claimed a $7,178.50 deduction, representing the alleged fair market value of the 98 undelivered shares at the time of the compromise.

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Procedural History

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The Commissioner of Internal Revenue disallowed Menefee’s deduction for the undelivered stock in her 1941 tax return, leading to a deficiency assessment. Menefee then petitioned the Tax Court to challenge the Commissioner’s determination.

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Issue(s)

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Whether the compromise of a property settlement agreement, incorporated into a divorce decree and characterized as

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