T.C. Memo. 1945-255

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When property is transferred as part of a divorce settlement with a fixed monetary value, the cost basis of that property is the agreed-upon value, not necessarily its fair market value at the time of transfer.

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Summary

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In this case, the Tax Court addressed the issue of determining the cost basis of stock received by a wife as part of a divorce settlement. The wife agreed to relinquish certain marital rights in exchange for a fixed sum of $750,000, part of which was satisfied by the transfer of 6,000 shares of stock valued at $360,000. The court held that the wife's cost basis in the stock was $360,000, the agreed-upon value within the settlement, not the stock's potentially different fair market value at the time of receipt. The court emphasized that the divorce agreement stipulated a fixed monetary obligation, distinguishing it from situations where property is exchanged without a specific valuation.

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Facts

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- The petitioner (wife) and Davis entered into a separation and divorce agreement.

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- Davis agreed to pay the petitioner $750,000 in exchange for her relinquishing certain marital rights.

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- Later, the parties agreed that $360,000 of the $750,000 obligation would be satisfied by the transfer of 6,000 shares of Western Auto class A stock.

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- The petitioner later sold some of the stock and needed to determine her cost basis for tax purposes.

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Procedural History

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The Commissioner of Internal Revenue assessed a deficiency against the petitioner, arguing that her cost basis in the stock should be its fair market value at the time of transfer, which was lower than the $360,000 attributed to it in the divorce agreement. The case was brought before the Tax Court for determination.

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Issue(s)

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Whether the cost basis of stock received as part of a divorce settlement, where a fixed monetary obligation was agreed upon, is the value attributed to the stock within the agreement or its fair market value at the time of transfer.

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Holding

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No, the cost basis is the value attributed to the stock in the agreement ($360,000), because the agreement specified a fixed monetary obligation that was partially satisfied by the stock transfer.

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Court’s Reasoning

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The court reasoned that the petitioner effectively used $360,000 of her $750,000 credit from the divorce settlement to acquire the stock. The court distinguished this situation from cases where property is exchanged without a specific agreed-upon value. The court cited *Commissioner v. Mesta*, 123 F.2d 986 (where "the amount of the taxpayer's obligation to his wife was fixed, An part in terms of stock by the parties themselves who really dealt at arm's length with one another.") to support its conclusion. Unlike *Mesta*, Davis' obligation was liquidated (i.e., $750,000). The court further emphasized that the transaction was an arm's-length one, meaning the agreed-upon value should be respected. The court stated that "we consider that petitioner paid $360,000 worth of her credit of $750,000 for the 6,000 shares of Western Auto class A stock, and we hold, therefore, that their cost basis to her is $60 a share."

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