Blum v. Commissioner, 177 F.2d 670 (7th Cir. 1949)

For the purposes of determining whether divorce payments are considered periodic payments taxable to the wife under Section 22(k) of the Internal Revenue Code, the 10-year period begins on the date the divorce decree is entered, not the date of the underlying agreement, when the agreement's effectiveness is contingent upon the entry of the decree.

Summary

This case addresses whether installment payments made to a divorced wife are taxable to her as periodic payments under Section 22(k) of the Internal Revenue Code. The key issue is whether the 10-year period, which determines if payments are considered periodic, begins from the date of the divorce agreement or the date the divorce decree was entered. The court held that the 10-year period starts from the date the decree was entered because the agreement was contingent upon the decree's entry, thus the legal obligation arose only upon the decree.

Facts

Tillie Blum and Harry Blum entered into a written agreement on February 27, 1935, stipulating that Harry would pay Tillie $120,000 in installments. The agreement was explicitly contingent upon the court entering a divorce decree. The divorce decree was entered on March 2, 1935. The final payment was due on March 1, 1945. The Commissioner of Internal Revenue sought to tax these payments to Tillie, arguing they were periodic payments because the payment period extended beyond ten years from the date of the agreement.

Procedural History

The Commissioner determined a deficiency in Tillie Blum's income tax, arguing that the payments she received from her ex-husband were taxable to her. Blum appealed the Commissioner's decision to the Tax Court. The Tax Court ruled in favor of Blum, finding the payments were not taxable to her. The Commissioner appealed to the Seventh Circuit Court of Appeals.

Issue(s)

Whether the 10-year period, as described in Section 22(k) of the Internal Revenue Code, for determining if divorce payments are considered periodic payments, begins on the date of the written agreement incident to the divorce or the date the divorce decree is entered, when the agreement's effectiveness is contingent upon the entry of the decree.

Holding

No, because the legal obligation to pay the principal sum was not imposed upon the

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husband under the written instrument alone, but only under that agreement in conjunction with the entered decree. The date of the decree is the start date of the payment period.

Court’s Reasoning

The court reasoned that the

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