

## ***Brady v. Commissioner, 10 T.C. 1192 (1948)***

A written agreement is considered 'incident to divorce' under Section 22(k) of the Internal Revenue Code if it is part of the negotiations and contemplation of divorce, even if the agreement doesn't explicitly require a divorce or is not directly referenced in the divorce decree.

### **Summary**

The Tax Court addressed whether payments made under a written agreement between a divorced couple were deductible by the husband under Section 23(u) of the Internal Revenue Code as alimony payments, which hinged on whether the agreement was 'incident to' their divorce under Section 22(k). The court held that the agreement was indeed incident to the divorce, despite not being mentioned in the divorce decree itself. This conclusion was based on the evidence demonstrating that both parties contemplated divorce when entering the agreement, and the agreement was a key component in the divorce negotiations. The court emphasized that the agreement was in the nature of alimony payments and taxable to the former wife.

### **Facts**

The petitioner, Brady, and his wife had marital difficulties, and Brady desired a divorce for at least five years before October 1937. On October 30, 1937, Brady and his wife entered into a written agreement providing for monthly payments of \$200 to the wife. Brady refused to sign the agreement unless a divorce proceeding was initiated. A divorce proceeding was eventually started in Massachusetts, and a divorce was granted. The agreement was not directly referenced in the court decree.

### **Procedural History**

The Commissioner of Internal Revenue disallowed Brady's deduction of the payments made to his former wife. Brady then petitioned the Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case to determine if the agreement was incident to the divorce, which would allow the deduction under Section 23(u) of the Internal Revenue Code.

### **Issue(s)**

Whether the agreement of October 30, 1937, providing for the payment of \$200 per month to the petitioner's divorced wife, was executed incident to divorce, pursuant to the provisions of section 22(k), Internal Revenue Code, thus making the payments deductible under section 23(u) of the code.

### **Holding**

Yes, because the conduct and statements of the petitioner and counsel, the sequence

of events, and the terms of the agreement itself, all lead to the conclusion that the agreement was executed incident to the divorce granted by the Probate Court of Essex County, Massachusetts.

### **Court's Reasoning**

The court reasoned that Section 22(k) was enacted to tax alimony payments to the divorced wife, and the payments in this case were in the nature of alimony. The court noted the petitioner wanted a divorce for years before the agreement, and he only signed it after being assured a divorce would be filed. The court addressed the respondent's argument that the agreement was not specifically referenced in the divorce decree, stating, "It is true the written instrument did not mention that it was conditioned upon Elizabeth's bringing an action for divorce." However, this omission was to avoid the appearance of collusion, which would render the agreement void under public policy. The court emphasized a realistic view, stating that situations arising under Section 22(k) "must be viewed and treated realistically."

### **Practical Implications**

This case provides guidance on determining whether a written agreement is 'incident to' a divorce for tax purposes. It clarifies that the agreement need not be explicitly mentioned in the divorce decree, nor does it need to explicitly require the procurement of a divorce. The key factor is whether the agreement was part of the negotiations and contemplation of divorce. Attorneys should gather evidence of intent and circumstances surrounding the agreement's creation. This case highlights the importance of understanding the motivations and context behind settlement agreements in divorce cases, especially when advising clients on the tax implications of such agreements. Later cases may distinguish Brady if there is a clear lack of contemplation of divorce at the time of the agreement, or if the agreement is demonstrably separate from the divorce proceedings.