14 T.C. 1356 (1950)

Life insurance premiums paid by a taxpayer pursuant to a divorce decree can be deductible as alimony if the policy irrevocably benefits the former spouse, but not if the policy serves merely as security for installment payments.

Summary

The Tax Court addressed whether a taxpayer could deduct certain payments made to his former wife and daughter, including cash installments and life insurance premiums, as alimony under Section 23(u) of the Internal Revenue Code. The court held that cash installments payable over less than 10 years were not deductible. Premiums paid on policies held in escrow as security were also not deductible, but premiums on a policy fully owned by the ex-wife were deductible. Premiums on a policy owned by the daughter were not deductible, as they constituted non-deductible child support.

Facts

Lemuel Carmichael divorced his wife, Vieva, and had one daughter, Donna Sue. A property settlement agreement and divorce decree obligated Carmichael to pay Vieva $27,000 in installments ($200/month alimony, $50/month child support). To secure this, he placed $15,000 in life insurance policies in escrow and delivered two $5,000 policies – one to Vieva, one to Donna Sue – without the right to change beneficiaries. In 1945, Carmichael paid $1,300 in cash alimony, $274.30 in premiums on escrowed policies, and $500.90 on the other two policies.

Procedural History

The Commissioner of Internal Revenue disallowed Carmichael's claimed deduction for alimony payments. Carmichael petitioned the Tax Court, contesting the deficiency determination. The Tax Court reviewed the terms of the divorce decree, the property settlement agreement, and the specifics of the life insurance policies to determine whether the payments qualified as deductible alimony.

Issue(s)

1. Whether the cash installment payments made by Carmichael to Vieva constituted deductible alimony under Section 23(u) of the Internal Revenue Code.
2. Whether the premiums paid by Carmichael on the life insurance policies held in escrow constituted deductible alimony.
3. Whether the premiums paid by Carmichael on the $5,000 life insurance policy delivered to Vieva constituted deductible alimony.
4. Whether the premiums paid by Carmichael on the $5,000 life insurance policy delivered to Donna Sue constituted deductible alimony.

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Holding

1. No, because the cash payments were installment payments of a specified principal sum payable within 10 years and not considered periodic payments.
2. No, because Vieva did not constructively receive the premiums, as the policies were merely security and she did not have present ownership or control.
3. Yes, because Vieva constructively received the premiums, as she was the irrevocable owner of the policy and derived immediate benefits.
4. No, because the policy constituted additional maintenance for the child and was therefore excluded from Vieva’s income under Section 22(k).

Court’s Reasoning

The court reasoned that the cash payments were installment payments of a specified principal sum ($27,000) payable over a definite period (9 years), thus failing the

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