16 T.C. 1216 (1951)

A lump-sum alimony payment, distinct from recurring monthly payments and not mandated by a divorce decree, is not considered a “periodic payment” under Section 22(k) of the Internal Revenue Code and therefore is not deductible by the payor.

Summary

In a divorce settlement, Ralph Norton agreed to pay his wife $200 monthly as alimony, plus a one-time $5,000 payment termed “additional alimony.” The divorce decree ordered the monthly payments but was silent on the $5,000. Norton deducted the full amount as alimony. The Tax Court held that the $5,000 lump sum was not a “periodic payment” under Section 22(k) of the Internal Revenue Code and therefore not deductible. The court reasoned that the lump sum was distinct from the recurring payments and not mandated by the divorce decree itself.

Facts

Ralph Norton filed for divorce from his wife, Hazel. Hazel cross-petitioned, seeking divorce and alimony. Pending the divorce, Ralph and Hazel entered a written agreement stipulating that Ralph would pay Hazel $200 per month as alimony until her death or remarriage. The agreement further stated that Ralph would pay Hazel an additional $5,000 “as additional alimony, payable forthwith.” The stipulation was filed in the divorce proceeding. The court granted the divorce to Hazel and ordered Ralph to pay $200 per month as alimony. The decree mentioned the filed stipulation but did not specifically address or order the $5,000 payment. Ralph paid the $5,000 to Hazel the day after the divorce decree.

Procedural History

Ralph Norton deducted $6,750 for alimony payments on his 1946 tax return, including the $5,000 lump-sum payment. The Commissioner of Internal Revenue disallowed $5,300 of the claimed deduction. Norton petitioned the Tax Court, arguing that the $5,000 was a deductible periodic payment under Section 22(k) of the Internal Revenue Code.

Issue(s)

Whether a lump-sum payment made pursuant to a written settlement agreement incident to a divorce decree, but not specifically mandated by the decree itself, constitutes a “periodic payment” under Section 22(k) of the Internal Revenue Code, and is therefore deductible by the payor.

Holding

No, because the $5,000 payment was not considered a periodic payment within the meaning of Section 22(k) as it was a one-time lump sum, distinct from the recurring

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monthly alimony payments, and because the divorce decree did not mandate this specific payment.

Court's Reasoning

The Tax Court reasoned that the $5,000 payment was not a "periodic payment" as contemplated by Section 22(k) of the Internal Revenue Code. The court emphasized that the agreement itself distinguished between the "monthly or periodic alimony" and the $5,000 payment, which was to be "payable forthwith." The court highlighted the ordinary meaning of "periodic" as involving regular or stated intervals, which did not apply to the lump-sum payment. While the statute specifies that periodic payments need not be equal or at regular intervals, the court believed that the lump-sum nature of the $5,000 distinguished it from true periodic payments intended for recurring support. Furthermore, the court noted that the divorce decree only ordered the $200 monthly payments and did not adopt the stipulation regarding the $5,000. The court considered the $5,000 more akin to a division of capital than income, suggesting Congress did not intend such lump-sum payments to be taxable to the wife and deductible by the husband. The court distinguished other cases cited by the Commissioner, finding them factually dissimilar. The court stated, "It is to be noted indeed that although the decree of the court did recite 'Stipulation filed as of May 7th, 1946' — which reasonably only refers to the stipulation of agreement above described, between the petitioner and his wife — the decree does not adopt the stipulation or make it a part thereof, and particularly that the decree does not award the $5,000 as alimony."

Practical Implications

This case clarifies the distinction between periodic alimony payments and lump-sum settlements in the context of tax deductibility. It highlights the importance of the divorce decree's specific language in determining whether a payment qualifies as a deductible periodic payment. Attorneys drafting divorce settlements must ensure that any intended deductible alimony payments are clearly delineated as such in both the settlement agreement and the divorce decree. The case also suggests that lump-sum payments, even if labeled as "additional alimony" in a settlement agreement, are unlikely to be considered deductible periodic payments if not explicitly mandated by the court. Later cases would likely analyze similar fact patterns by focusing on whether the payment is recurring, tied to the recipient's needs, and integrated into the divorce decree. This case is a cautionary tale on the need for clarity and precision in drafting divorce agreements and obtaining court approval to achieve desired tax outcomes.

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