17 T.C. 1461 (1952)

A lump-sum payment to a divorced spouse, payable in installments over a period not exceeding ten years, is not considered a 'periodic payment' and therefore is not deductible by the payor under sections 23(u) and 22(k) of the Internal Revenue Code.

Summary

Jean Cattier sought to deduct payments made to his ex-wife pursuant to a divorce agreement. The agreement stipulated monthly support payments, contingent on Cattier's income, and a separate $6,000 payment to be made in quarterly installments upon her remarriage. The Tax Court denied Cattier's deduction of the $6,000 payment, holding it was a non-deductible lump-sum payment as it was a fixed sum payable within a year, and thus not a periodic payment under the relevant provisions of the Internal Revenue Code. This case clarifies the distinction between deductible periodic alimony payments and non-deductible fixed-sum settlements.

Facts

Jean Cattier and his wife, Ruth Lowery Cattier, entered into a separation agreement on October 31, 1940, which was incident to a divorce decree granted on December 18, 1940. The agreement specified that Cattier would make monthly payments to his wife for her support, contingent on his income, until her death or remarriage. A separate clause (Paragraph Thirteenth) stipulated that if his wife remarried, Cattier would pay her a lump sum of $6,000, payable in four quarterly installments.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Cattier's income tax for 1945, disallowing a deduction claimed for the $6,000 paid to his divorced wife. Cattier petitioned the Tax Court, contesting this disallowance. He conceded a separate issue regarding legal fees. The Tax Court then ruled on the deductibility of the $6,000 payment.

Issue(s)

Whether the $6,000 payment made by Cattier to his divorced wife upon her remarriage, pursuant to the separation agreement, constituted a 'periodic payment' deductible under sections 23(u) and 22(k) of the Internal Revenue Code.

Holding

No, because the $6,000 payment was a fixed principal sum payable in installments over a period of less than ten years, and thus did not qualify as a 'periodic payment' under section 22(k) of the Internal Revenue Code.

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Court’s Reasoning

The court reasoned that only ‘periodic payments’ are deductible by the payor under section 23(u) and includible in the recipient’s gross income under section 22(k). Section 22(k) specifically excludes installment payments of a principal sum specified in the divorce decree or related agreement, unless the principal sum is to be paid over a period exceeding ten years. The court emphasized that Paragraph Thirteenth of the agreement clearly stipulated a $6,000 payment in four quarterly installments, triggered by the wife’s remarriage. The court distinguished this from the monthly support payments, which were contingent on Cattier’s income and terminable upon the wife’s remarriage. The court stated: “We believe the payments required in paragraph ‘THIRTEENTH’ were not, as petitioner contends, merely the terminal payments of a series of payments for support and maintenance of the divorced wife. The agreement plainly states that his liability to pay for her support and maintenance ceased upon her remarriage.” Because the $6,000 was a fixed sum payable within one year, it was not a ‘periodic payment’ and therefore not deductible.

Practical Implications

This case clarifies the distinction between deductible periodic alimony payments and non-deductible property settlements or lump-sum payments in divorce agreements. Attorneys drafting divorce agreements must carefully structure payments to qualify as ‘periodic’ if the payor seeks a tax deduction. Specifically, any principal sum must be payable over a period exceeding ten years to be considered a periodic payment. This case serves as a reminder that seemingly similar payments can have vastly different tax consequences based on their structure and timing. Later cases have cited Cattier to reinforce the principle that fixed, short-term installment payments are generally not deductible as alimony.

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