***Baker v. Commissioner*, 17 T.C. 1610 (1952)**

Payments made pursuant to a separation agreement that are determined to be installment payments discharging a principal sum within ten years are not considered periodic payments and are therefore not deductible as alimony; furthermore, life insurance premiums paid on a policy where the ex-wife is the beneficiary are not deductible as alimony if the policy serves as collateral security for alimony payments.

Summary

F. Ellsworth Baker sought to deduct payments made to his ex-wife, Viva, under a separation agreement, including a lump-sum payment, monthly payments after the divorce, and life insurance premiums. The Tax Court held that the lump-sum payment was not deductible because it was a pre-divorce payment and not a periodic payment. The monthly payments were deemed installment payments of a principal sum payable within ten years, thus not deductible. The court also ruled that life insurance premiums were not deductible because the policies served as collateral security and did not increase the agreement's duration, also failing the ten-year payment rule.

Facts

F. Ellsworth Baker and Viva entered into a separation agreement on July 17, 1946, which was later incorporated into their divorce decree.
The agreement stipulated a $3,000 payment to Viva upon signing.
It also required monthly payments for six years, initially $300 for the first year and $200 thereafter, with a potential reduction based on Baker's income, but not below $150 per month.
Any reductions in monthly payments were to be repaid starting July 17, 1952.
Baker was obligated to designate Viva as the irrevocable beneficiary of life insurance policies, which she would return upon the agreement's expiration.
Baker paid $1,225 in monthly payments to Viva after the divorce in 1946 and also paid the life insurance premiums.
Viva remarried in September 1949, leading to the return of the insurance policies to Baker, and she ceased to be the beneficiary in September 1951.

Procedural History

Baker deducted the $3,000 lump-sum payment, monthly payments, and life insurance premiums on his tax return.
The Commissioner of Internal Revenue disallowed these deductions.
Baker petitioned the Tax Court for review of the Commissioner's determination.

Issue(s)

Whether the $3,000 lump-sum payment made upon signing the separation

© 2025 SCOTUSreports.com. All rights reserved.

agreement is deductible as alimony.
Whether the monthly payments made after the divorce are deductible as periodic payments under Section 22(k) and 23(u) of the Internal Revenue Code.
Whether the life insurance premiums paid by Baker, with Viva as the beneficiary, are deductible as alimony payments.

Holding

No, the $3,000 lump-sum payment is not deductible because it was a pre-divorce payment not taxable to the wife under Section 22(k) and not deductible by the husband under Section 23(u) and was not a periodic payment.
No, the monthly payments are not deductible because they represent installment payments of a principal sum payable within a period of less than ten years.
No, the life insurance premiums are not deductible because the policies served as collateral security for the alimony payments and the payments did not extend beyond ten years.

Court's Reasoning

The court reasoned that the $3,000 payment was a lump-sum intended as an adjustment of the financial affairs of the parties prior to the divorce. As such, it did not qualify as a periodic payment under Section 22(k) of the Internal Revenue Code and therefore was not deductible under Section 23(u).
The court determined that the monthly payments constituted installment payments of a principal sum of $15,600 to be paid within a period of less than ten years. Referencing prior cases like *J.B. Steinel*, *Estate of Frank P. Orsatti*, and *Harold M. Fleming*, the court concluded that such payments are not deductible from the husband's gross income under Section 23(u).
Regarding the life insurance premiums, the court found that the policies served as collateral security for the monthly payments. Citing *Blummenthal v. Commissioner*, the court stated that providing security for the taxpayer's obligation does not, in itself, increase the amount provided for the divorced wife in the agreement or extend the duration of the agreement. The maximum term of the agreement remained under ten years, thus the premium payments were not deductible.

Practical Implications

This case clarifies that for alimony payments to be deductible, they must be considered periodic and not installment payments of a principal sum payable within ten years. Attorneys drafting separation agreements must be mindful of the ten-year rule to ensure payments qualify for deduction.
Life insurance premiums are generally not deductible as alimony unless they directly and substantially benefit the ex-spouse beyond serving as mere security for payment. The ex-spouse's ownership and control of the policy are key factors.
The ruling underscores the importance of carefully structuring separation agreements to achieve desired tax outcomes, considering both the form and

© 2025 SCOTUSreports.com. All rights reserved.

substance of the payments and obligations.

© 2025 SCOTUSreports.com. All rights reserved.