18 T.C. 1013 (1952)

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A lump-sum payment of alimony arrearages retains the character of the original periodic payments and is therefore taxable income to the recipient and deductible by the payor.

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Summary

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The Tax Court addressed whether a lump-sum payment of $10,720, representing alimony arrearages, was taxable income to Jane Grant and deductible by the estate of her former husband, Harold Ross. The court held that the payment constituted taxable income to Grant and was deductible by Ross's estate because the original separation agreement was incident to a divorce, and the payments were considered "periodic" under the tax code. The court reasoned that the lump-sum payment represented accumulated arrearages of what were originally periodic alimony payments.

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Facts

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Jane Grant and Harold Ross divorced in 1929, subsequent to a separation agreement that required Ross to pay Grant the difference if dividends from certain stock fell below $10,000 annually. Over several years, Ross failed to pay the full amount. In 1946, Grant and Ross entered into a new agreement where Ross paid Grant $10,720, representing the accumulated arrearages under the original separation agreement. This 1946 agreement released Ross from future alimony obligations but acknowledged the debt for past arrearages.

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Procedural History

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The Commissioner of Internal Revenue determined a deficiency in Grant's 1946 income tax, arguing the $10,720 was taxable income. Simultaneously, the Commissioner determined a deficiency in Ross's estate tax, disallowing a deduction for the same $10,720 payment. The Tax Court consolidated the cases to resolve the inconsistent determinations.

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Issue(s)

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1. Whether the separation agreement was "incident to a divorce" within the meaning of Section 22(k) of the Internal Revenue Code.r
2. Whether the $10,720 payment constituted "periodic payments" as defined by Section 22(k) of the Internal Revenue Code.

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Holding

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1. Yes, because the separation agreement was executed shortly before the divorce proceedings, indicating it was incident to the divorce.r
2. Yes, because the lump-sum payment represented accumulated arrearages of what were originally periodic alimony payments.

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Court's Reasoning

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The court reasoned that the separation agreement was incident to the divorce despite not being explicitly referenced in the divorce decree. The court emphasized the proximity of the separation agreement to the divorce proceedings, citing precedent that a mutually coexistent intent for divorce is not a requirement for the payments to be included as income to the wife and deductible by the husband. The court stated, "Legislative emphasis upon a mutually coexistent intent for divorce is not to be assumed in the absence of an expressed requirement…".

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Regarding whether the payment was “periodic,” the court determined that because the original agreement called for periodic payments based on a specified objective standard (dividend yield), the lump-sum payment of arrearages retained that character. The court cited *Elsie B. Gale, 13 T.C. 661*, which treated increased alimony payments for prior years as periodic payments, even though the entire amount was paid in the taxable year. The Tax Court stated, “Since the arrears here would have constituted periodic payments had they been paid when due, the receipt of such arrears, even though in a lump or aggregate sum, must be regarded as the receipt of a periodic payment.”

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