21 T.C. 211 (1953)

A payment made pursuant to a divorce settlement is deductible as alimony if it constitutes a periodic payment, made under a written instrument incident to the divorce, and discharges a legal obligation arising from the marital relationship.

Summary

In 1947, F. Ewing Glasgow paid his ex-wife $12,500 upon their divorce, along with an agreement for annual payments of $3,000. He also paid fees to a trust company for managing the payments. Glasgow sought to deduct these payments from his income tax, claiming they constituted alimony under the Internal Revenue Code. The Tax Court held that only the $3,000 portion of the initial payment, which mirrored the annual payments, qualified as a deductible periodic payment. The fees paid to the trust company were deemed non-deductible expenses. The case clarifies the definition of "periodic payments" in the context of divorce settlements and their tax implications.

Facts

F. Ewing Glasgow and Marguerite Haldeman divorced on December 22, 1947. Prior to the divorce, they separated in July 1947. The divorce decree made no provision for alimony. A written settlement agreement, executed concurrently with the divorce, provided that Glasgow would pay his ex-wife $12,500 immediately and $3,000 annually, beginning in January 1949, until her death or remarriage. The initial $12,500 payment was divided into three parts: $3,000 for the same purpose as the annual payments, $2,500 for her attorney's fees, and the remainder to cover her medical expenses. To secure the payments, Glasgow deposited securities with a trust company and paid the trust company fees for its services.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Glasgow's income tax for 1947, disallowing the deductions claimed for the $12,500 payment and the trust company fees. The case was brought before the United States Tax Court.

Issue(s)

1. Whether the $12,500 payment made by Glasgow to his ex-wife was a deductible periodic payment under the Internal Revenue Code.

2. Whether Glasgow could deduct the fees paid to the trust company as ordinary and necessary expenses under the Internal Revenue Code.

Holding

1. Yes, because $3,000 of the $12,500 payment was a periodic payment and

deductible. The other portions were not considered periodic and were non-deductible.

2. No, because the fees paid to the trust company were not expenses for the production or collection of income or for the management or maintenance of property held for the production of income.

Court's Reasoning

The court examined the requirements for alimony deductions under the Internal Revenue Code, specifically sections 23(u) and 22(k). The court found that deductions are matters of legislative grace and that claimed payments must fall squarely within the statutory provisions. The court held that the initial $12,500 payment was made pursuant to a written instrument incident to the divorce. However, it determined that only $3,000 of the $12,500 payment, which corresponded to one year of the annual payments, was a periodic payment. The remainder of the initial payment was for specific, non-recurring purposes (attorney's fees, medical expenses) and did not meet the definition of periodic payments. "[A] payment must meet the test of the statute on the allover facts." The court also found that the trust company fees were not deductible because they were for the handling of payments to his divorced wife, not for the management or conservation of his income-producing property. The court noted that the securities remained in Glasgow's name, with income paid directly to him, and that the trust company's role was to ensure the ex-wife received her alimony.

Practical Implications

This case is crucial for attorneys advising clients on the tax implications of divorce settlements. It emphasizes the importance of structuring payments to meet the definition of periodic payments to ensure their deductibility. Lawyers must carefully analyze the nature and purpose of each payment to determine its tax treatment. This case illustrates the distinction between lump-sum payments, which are not deductible, and payments made as part of a series of periodic payments. It also highlights that payments for attorney's fees and specific expenses are generally not deductible. The court distinguished the case from those involving deductible expenses incurred for the production or collection of income. The court emphasized that the substance of the transaction, not just the terminology, controls the tax consequences. This case continues to inform how divorce settlements are drafted and litigated.

