21 T.C. 451 (1954)

Payments made pursuant to an agreement that is considered “incident to” a divorce decree are taxable as alimony to the recipient and deductible by the payor, even if the agreement was executed after the divorce.

Summary

In *Holahan v. Commissioner*, the U.S. Tax Court addressed whether payments made by a former husband to his ex-wife were taxable as alimony. The court held that payments made under an agreement entered into after the divorce decree, which settled a prior judgment, were taxable alimony because the agreement was considered “incident to” the divorce. The court reasoned that since the later agreement settled disputes arising from the divorce and a previous agreement that was itself related to the divorce, it was part of the overall divorce arrangement. The court emphasized the importance of considering the circumstances surrounding the agreement’s execution and how it related to the divorce proceedings.

Facts

James and Antoinette Holahan divorced in 1928, with a decree ordering James to pay Antoinette alimony. In 1924, before the divorce, they had a separation agreement. In 1928, during the divorce proceedings, they entered into a new agreement concerning support payments, which was incorporated into the divorce decree. Later, the decree was modified, and James reduced his payments. In 1947, Antoinette sued James for the difference between the modified decree payments and the original 1928 agreement, obtaining a judgment. In 1949, while this judgment was being appealed, James and Antoinette entered into a new agreement where James agreed to pay a lump sum and weekly payments to settle all claims, including those related to the 1928 agreement and the divorce decree. The Commissioner of Internal Revenue determined that the payments received by Antoinette under the 1949 agreement were includible in her income as alimony, and the payments were deductible by James.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the income taxes of both Antoinette and James for the tax year 1949. The taxpayers challenged these determinations in the U.S. Tax Court. The Tax Court consolidated the cases for hearing and opinion, addressing the taxability of the payments under the 1949 agreement.

Issue(s)

1. Whether the payments made by James to Antoinette in 1949 were “periodic payments” as defined by the Internal Revenue Code, such that they were includible in her gross income and deductible by him.

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2. Whether the 1949 agreement was

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