Steinel v. Commissioner, 10 T.C. 409 (1948)

Alimony payments are considered installment payments, and thus not deductible as periodic payments, if they discharge a principal sum specified in the divorce decree or related agreement, unless contingencies in the agreement prevent the determination of a fixed principal sum; the burden of proving such contingencies rests with the taxpayer.

Summary

In this Tax Court case, the petitioner, Steinel, sought to deduct alimony payments made to his former wife as periodic payments under Section 23(u) of the Internal Revenue Code. The Commissioner argued that these payments were installment payments discharging a principal sum specified in the divorce decree and therefore not deductible. Steinel contended that contingencies, such as a potential reduction in his earning capacity and the possibility of his former wife's remarriage, prevented the payments from being considered a fixed principal sum. The Tax Court ruled against Steinel, holding that he failed to adequately prove the contingency of reduced earning capacity and that the possibility of remarriage did not automatically render the payments periodic.

Facts

The petitioner, Steinel, made monthly payments of $270 to his former wife in 1947 pursuant to a property settlement agreement incorporated into their divorce decrees.
Steinel argued that the alimony payments were not a fixed principal sum because the agreement allowed for a reduction in payments if his earning capacity decreased.
He also argued that the payments would terminate upon his former wife's remarriage, further indicating they were not a fixed principal sum.
Steinel claimed his income decreased after moving from Hollywood to Chicago due to unreimbursed living expenses, leading to a reduction in alimony payments by mutual consent.

Procedural History

Steinel petitioned the Tax Court to contest the Commissioner's disallowance of the alimony deduction.
The Tax Court reviewed the property settlement agreement, divorce decrees, and Steinel's testimony.

Issue(s)

1. Whether the monthly alimony payments of $270 were periodic payments deductible under Section 23(u) of the Internal Revenue Code, or installment payments of a principal sum not deductible under Section 22(k).

© 2025 SCOTUSreports.com. All rights reserved.

2. Whether the contingency of a potential reduction in Steinel's earning capacity, as outlined in the property settlement agreement, prevented the alimony obligation from being considered a principal sum.
3. Whether the contingency of the former wife's remarriage prevented the alimony obligation from being considered a principal sum.

Holding

1. No, the payments were considered installment payments of a principal sum.
2. No, because Steinel failed to provide sufficient evidence to prove that his earning capacity had actually decreased in a way that triggered the contingency for reduced alimony payments as defined in the agreement.
3. No, because the Tax Court maintained its position that the contingency of remarriage does not inherently prevent the determination of a principal sum, disagreeing with the Second Circuit's Baker v. Commissioner decision.

Court's Reasoning

The court reasoned that Steinel bore the burden of proof to demonstrate that the alimony payments were periodic. To argue that the payments were not a principal sum due to reduced earning capacity, Steinel needed to provide sufficient evidence of this contingency occurring and affecting the alimony obligation as per the agreement. The court found Steinel's testimony about increased living expenses in Chicago and a consensual reduction in payments insufficient proof of a contingency-based reduction as defined in the agreement. The court stated, "The mere showing of a reduction in the payments called for by the decrees and settlement agreement is insufficient unless we are also shown that that reduction was the result of the occurrence of a contingency referred to in either the decrees or settlement agreement."
Regarding the remarriage contingency, the court acknowledged the Second Circuit's decision in *Baker v. Commissioner*, which held that remarriage made it impossible to ascertain a principal sum. However, the Tax Court explicitly declined to follow *Baker*, reaffirming its stance from *James M. Fidler, 20 T.C. 1081*, that the possibility of remarriage does not negate the existence of a specified principal sum at the time of the divorce decree. The court emphasized that the obligation existed at the time of the decree, and contingencies alone do not automatically transform installment payments into periodic payments unless those contingencies are demonstrably triggered and proven by the taxpayer.

Practical Implications

Steinel v. Commissioner highlights the importance of clear and convincing evidence for taxpayers seeking to deduct alimony payments as periodic payments based on contingencies. It underscores that the burden of proof lies with the taxpayer to demonstrate that contingencies specified in divorce decrees or settlement agreements have actually occurred and affected the alimony obligation in a way that

© 2025 SCOTUSreports.com. All rights reserved.

prevents the determination of a fixed principal sum. For legal practitioners, this case reinforces the Tax Court's approach to distinguishing between periodic and installment alimony payments, particularly its divergence from the Second Circuit's view on remarriage as a contingency. It advises careful documentation and presentation of evidence related to contingencies like reduced earning capacity when arguing for the deductibility of alimony payments. Later cases would need to consider the Tax Court's continued adherence to this evidentiary standard and its position on contingencies, especially in circuits that may follow the Second Circuit's *Baker* precedent more closely.

© 2025 SCOTUSreports.com. All rights reserved.