Fisher v. Commissioner, 20 T.C. 465 (1953)

Alimony arrearages, even if paid in a lump sum, are considered periodic payments and taxable income to the recipient if they represent amounts that were previously due under a divorce decree or separation agreement.

Summary

In this case, the Tax Court addressed whether a lump-sum payment received by a divorced wife, representing alimony arrearages for prior years, constituted taxable income. The court held that the payment, representing amounts that the former husband owed under the terms of their separation agreement and divorce decree, was taxable as "periodic payments" under Section 22(k) of the 1939 Internal Revenue Code. The court distinguished the case from situations where a lump sum payment settles all future alimony obligations, emphasizing that arrearages retain their periodic nature for tax purposes.

Facts

The taxpayer, a divorced woman, received $14,000 in 1948 from her former husband as a result of a settlement in New Jersey Chancery Court. This sum represented alimony arrearages for prior years, as well as increased alimony for part of 1948. The divorce was in Nevada and incorporated a separation agreement. The suit requested compliance with the separation agreement and relief under the Nevada divorce decree.

Procedural History

The Commissioner of Internal Revenue determined that the $14,000 was taxable income to the taxpayer. The taxpayer challenged the Commissioner's determination in the U.S. Tax Court.

Issue(s)

Whether the $14,000 received by the taxpayer, representing alimony arrearages, constituted "periodic payments" within the meaning of section 22 (k) of the 1939 Code.

Holding

Yes, because the $14,000 represented the aggregate of amounts due and owing to the taxpayer under the terms of the 1943 agreement and the Nevada divorce decree and was therefore considered "periodic payments" for tax purposes.

Court's Reasoning

The court relied on the principle that alimony arrearages are considered "periodic

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payments" under the tax code. The court distinguished the case from *Frank J. Loverin*, where a lump-sum payment was made in full settlement of all future alimony obligations. In *Loverin*, the original divorce decree had been modified to eliminate alimony, and a separate agreement provided for a lump-sum payment, which the court deemed not taxable as periodic alimony. The Fisher court emphasized that the $14,000 was a settlement of accrued alimony, not a payment in full settlement of future alimony, and retained its "periodic" characteristics. The Court relied on prior cases like *Elsie B. Gale, 13 T. C. 661, affd. 191 F. 2d 79* to underscore that "the term 'principal sum' as used in section 22 (k) contemplates a fixed and specified sum of money or property payable to the wife in complete or partial discharge of the husband's obligation to provide for his wife's support and maintenance, as distinct from 'periodic' payments made in connection with an obligation indefinite as to time and amount."

Practical Implications

The case provides a clear distinction between lump-sum settlements of accrued alimony and lump-sum payments made to settle future alimony obligations. The court's ruling reinforces that payments of alimony arrearages, even if paid in a lump sum, are generally treated as taxable income to the recipient and deductible by the payor, just like regular alimony payments. This has direct implications for how legal professionals advise clients in divorce settlements and how they structure agreements. Lawyers must clearly differentiate between settling past due obligations and future obligations. Tax consequences can dramatically alter the value of settlement agreements.

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