Morsman v. Commissioner, 27 T.C. 528 (1957)

To determine whether payments made under a divorce decree are deductible as alimony, the decree or settlement agreement must specifically designate a portion of the payments as child support; if not specifically designated, the entire amount is considered alimony.

Summary

In *Morsman v. Commissioner*, the Tax Court addressed whether payments made by a divorced husband to his former wife were deductible as alimony or non-deductible child support. The divorce decree incorporated a settlement agreement with provisions for payments to the wife. The court examined the agreement to determine if it fixed a specific sum for child support. The court found that although the agreement did not explicitly state a child support amount, it could be inferred. The decision clarifies how to interpret divorce agreements for tax purposes, emphasizing the need for clear language to distinguish between alimony and child support, especially in situations with divided custody and variable payment amounts.

Facts

Truman W. Morsman and Mary Elaine Meyer Morsman divorced in 1945, with a decree that incorporated a settlement agreement. The agreement provided payments to the wife, with the amount varying based on the custody of their son, Truman Ward Morsman, Jr., and the wife's marital status. The payments were to cease upon the son's death or majority. The husband made $1,200 in payments to his former wife in 1952, which he sought to deduct as alimony. The Commissioner disallowed the deduction, arguing the payments were for child support. The agreement stipulated that the wife would receive a higher payment when she had custody of the child, and this differential was the key point in determining whether part of the payment was child support.

Procedural History

The case originated as a deficiency determination by the Commissioner of Internal Revenue against the husband. The husband conceded some adjustments, but disputed the disallowance of the alimony deduction. The Tax Court reviewed the case based on an agreed statement of facts, effectively making it a matter of interpreting the divorce decree and settlement agreement.

Issue(s)

1. Whether the payments made by the husband to his former wife, under the terms of their divorce settlement agreement, were specifically designated as child support.

Holding

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1. Yes, because the agreement, when read as a whole, fixed a specific amount of the payments as child support.

Court's Reasoning

The court began by stating that the settlement agreement must be construed as a whole. It noted that Section 23(u) of the Internal Revenue Code of 1939 allowed a deduction for payments includible in the wife's gross income under section 22(k). The latter section excluded from the wife's gross income "that part of any such periodic payment which the terms of the decree or written instrument fix, in terms of an amount of money or a portion of the payment, as a sum which is payable for the support of minor children of such husband." The key was whether the agreement "fix[ed], in terms of an amount of money or a portion of the payment, as a sum which is payable for the support of" the minor child.

The court examined the agreement's provisions. It pointed out that the wife received a higher payment when she had custody of the child. The court reasoned that the $50 difference in payments, depending on custody and the wife's marital status, implicitly represented the child support portion. The court differentiated this case from prior cases where the agreement did not clearly delineate child support. "This is a clear indication that, out of any payment she received, $50 was to go for the support of Ward." The court determined the agreement fixed $50 as child support, regardless of the varying payment amounts based on custody or the wife's marital status. They decided that one-half of the $1,200 payment was alimony, and the other half was child support, therefore only $600 was deductible.

Practical Implications

This case underscores the importance of precise drafting in divorce decrees and settlement agreements, particularly concerning the designation of child support payments. Attorneys must ensure that any intent to classify payments as child support is explicitly stated in the agreement. The court's focus on the practical effect of payment variations, such as those based on custody, highlights that the substance of the agreement prevails over its form. The court emphasized that if a specific amount for child support is not clear, the entire payment can be treated as alimony. This is an important consideration for tax purposes, as alimony payments are deductible by the payor, and child support payments are not. Later cases have cited *Morsman* to emphasize that the intent of the parties, as expressed through their agreement, controls the characterization of payments, especially when considering tax implications.

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