Hirshon v. Commissioner, 23 T.C. 903 (1955)

Payments made by a divorced spouse are considered alimony, and therefore deductible, unless a divorce agreement or decree explicitly designates a specific amount for child support, in which case it is not deductible as alimony.

Summary

In this tax court case, the court addressed whether a portion of payments made by a husband to his ex-wife, as stipulated in their divorce agreement, should be considered child support or alimony for tax purposes. The divorce agreement specified a lump sum payment for the wife's and child's support, but a separate provision stated that the husband's payments for the child would decrease or cease upon certain events. The court held that while the agreement did not explicitly allocate a specific amount for child support in one provision, another part of the agreement, when read together, did establish a specific amount that was intended for the child's support. Therefore, that specific amount was not deductible by the husband as alimony.

Facts

Walter and Jean Hirshon divorced in 1940. Their separation and property settlement agreement stated Walter would pay Jean $12,000 annually for her support and the support, care, maintenance, and education of their adopted daughter, Wendy. If Walter's income fell below $20,000 annually, he could reduce the payments. If Jean remarried, all payments for her support would cease, but Walter would continue paying for Wendy's support, with different payment schedules based on Wendy's age. In 1951, Walter paid Jean $12,000. Walter claimed this as a deduction for alimony. Jean reported only $8,400 as alimony.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Walter's tax return, disallowing part of the claimed alimony deduction, claiming that a portion of the payments constituted child support. The tax court considered the case.

Issue(s)

1. Whether the payments made by Walter to Jean were entirely alimony, and thus deductible, or if a portion was child support, and therefore not deductible.

Holding

1. No, because the divorce agreement, read as a whole, fixed a specific amount for child support, rendering that portion non-deductible as alimony.

Court's Reasoning

The court examined the Internal Revenue Code of 1939, which allowed a deduction for alimony payments but excluded amounts “payable for the support of minor children.” The court stated, “Whether a portion of the periodic payment is allocable to the support of minor children is to be determined by a reading of the instrument as a whole.” The court found that Paragraph Fourth of the agreement, when read in isolation, did not specifically allocate any of the payments to Wendy’s support. However, paragraph Fifth did provide separate amounts for child support based on Wendy’s age and the mother’s remarriage. The court found that paragraph Fifth plainly supplied the allocation. The Court concluded that by reading the document as a whole, the agreement fixed a specific amount to Wendy’s support, and to that extent, the payments were not deductible by Walter nor taxable to Jean. Even though Walter’s obligation to pay a lump sum was not directly tied to Wendy’s age, marriage or death, the agreement, read entirely, clearly meant some part of the payment was intended for Wendy’s support.

Practical Implications

This case underscores the critical importance of clear and explicit language in divorce agreements regarding the allocation of payments between alimony and child support for tax purposes. The ruling highlights the rule that, when determining the nature of payments, it is crucial to read the entire agreement rather than focusing on isolated sections. Attorneys drafting separation agreements must ensure that if the intention is to treat payments as alimony, then the document should clearly state there is no allocation for child support. Conversely, if a portion is meant for child support, the agreement must spell out a specific dollar amount or a clearly determinable portion of the total payment. If the agreement does not explicitly allocate amounts for child support, the entire amount will likely be considered alimony. Subsequent cases have consistently applied this principle, emphasizing the need for unambiguous language to avoid disputes over the tax treatment of divorce-related payments.

