## *Ashcraft v. Commissioner*, 28 T.C. 356 (1957)

Lump-sum payments and transfers of property made in a divorce settlement, even if related to alimony, are not considered "periodic payments" and are therefore not deductible as alimony under the Internal Revenue Code if they represent a settlement of a specified principal sum, as opposed to ongoing support.

### Summary

In *Ashcraft v. Commissioner*, the U.S. Tax Court addressed whether certain payments made by a divorced husband to his former wife were deductible as alimony. The husband made a lump-sum payment, another cash payment, and transferred the cash value of a life insurance policy to his ex-wife as part of a divorce settlement. The court held that these payments were not "periodic payments" and therefore were not deductible because they were made as part of a settlement agreement and represented a specified principal sum, even though related to alimony. The court differentiated between these payments and regular alimony payments. The decision highlights the importance of how divorce settlements are structured and the precise language of the agreement when determining the tax consequences of alimony payments.

### Facts

Alan E. Ashcraft, Jr., divorced his wife Ruth in 1944. Under the divorce decree and a written agreement, he was obligated to pay monthly alimony and maintain a life insurance policy for her benefit. In 1951, they modified their agreement, with Ruth waiving future alimony payments in exchange for a $6,200 payment, a $2,000 payment, and the transfer of a life insurance policy to her. The divorce court amended its decree, relieving Ashcraft of further alimony obligations. The IRS disallowed Ashcraft's deduction for these payments, arguing they were not periodic alimony.

### Procedural History

Ashcraft challenged the IRS's disallowance of the alimony deduction in the U.S. Tax Court. The case was submitted based on stipulated facts and the Tax Court rendered a decision in favor of the Commissioner of Internal Revenue, denying the deduction.

### Issue(s)

1. Whether the cash payments of $6,200 and $2,000 made by the petitioner to his former wife were "periodic payments" under Section 22(k) of the Internal Revenue Code of 1939.
2. Whether the transfer of the cash surrender value of the life insurance policy constituted a "periodic payment" deductible by the petitioner under Section 23(u) of the Internal Revenue Code of 1939.

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## Holding

1. No, because these were installment payments discharging a part of an obligation the principal sum of which was specified in the agreement.
2. No, because the transfer of the cash surrender value was part of the lump-sum property settlement and not a periodic payment.

## Court's Reasoning

The court examined whether the payments qualified as "periodic payments" under Sections 22(k) and 23(u) of the Internal Revenue Code of 1939. The court emphasized that the payments were made in consideration for a waiver of future alimony and were part of a property settlement. The court reasoned that the lump-sum cash payments and the transfer of the insurance policy represented a settlement of a specific principal sum, even though related to alimony. The court held that the payments were not periodic, but rather installment payments. The court quoted from *Ralph Norton, 16 T.C. 1216, 1218*: "The word "periodic" is to be taken in its ordinary meaning and so considered excludes a payment not to be made at fixed intervals but in a lump sum…" The court distinguished the case from situations where payments were contingent or indefinite in amount. The Court found that the payments were absolute and not dependent on any contingency such as the former wife's remarriage, unlike other cases where a contingency could render a payment periodic.

## Practical Implications

This case is significant because it clarifies the distinction between periodic alimony payments, which are typically deductible, and lump-sum settlements or property transfers, which are not. For attorneys, the case underscores the importance of carefully drafting divorce agreements to clearly define the nature of payments. When structuring divorce settlements, practitioners should consider whether the goal is to achieve a tax deduction for the payor, and whether this goal is compatible with the client's overall settlement objectives. Lump-sum or property settlement payments are not deductible and should be clearly identified as such in the agreement, whereas periodic payments may be deductible. This case reinforces the tax implications of classifying payments under a divorce decree. Later cases continue to cite *Ashcraft*, particularly in distinguishing between periodic and non-periodic payments, and in assessing the tax consequences of property settlements in divorce cases. Careful planning in divorce settlements, considering the nature of payments and their tax implications, is crucial to avoid disputes and achieve the desired tax outcomes. The form of the payments, and not just their relationship to alimony, determines their tax treatment.

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