Faber v. Commissioner, 25 T.C. 138 (1955)

Payments made by a divorced husband to his former wife, which are specifically allocated for the support of her minor son from a previous marriage and are not in discharge of the husband’s marital obligation, are not deductible as alimony by the husband.

Summary

The case involved a divorced husband, Faber, who made payments to his former wife, Ada, as part of a divorce agreement. The agreement allocated a portion of the payments for the support of Ada’s son from a prior marriage, William, whom Faber never adopted. Faber sought to deduct these payments as alimony. The Tax Court held that because the payments were specifically allocated to William’s support and were not in satisfaction of Faber’s marital obligations to Ada, they were not deductible by Faber. The court found that the payments were for the benefit of the stepson, not the wife, and thus did not meet the requirements for alimony deductions under the Internal Revenue Code.

Facts

Petitioner, Faber, married Ada, who had a son, William, from a previous marriage. William was not legally adopted by Faber, but his last name was legally changed to Faber. Faber and Ada divorced, and the divorce agreement included a provision for Faber to pay Ada $55,000 in installments. The agreement allocated $2,700 annually specifically for William’s support and care, and $2,300 to the wife. The divorce decree incorporated the agreement. Faber made payments in 1952, and deducted the entire amount as alimony. The Commissioner disallowed the deduction of the portion allocated to William’s support.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Faber’s income tax, disallowing the deduction for the payments allocated to William’s support. The Tax Court heard the case and found in favor of the Commissioner, upholding the disallowance. The case was not appealed.

Issue(s)

1. Whether the payments made by Faber to his former wife, Ada, which were allocated for the support of her son from a previous marriage, are deductible by Faber as alimony under the Internal Revenue Code of 1939.

Holding

1. No, because the payments allocated for the support of William were not in discharge of a legal obligation of Faber arising from the marital or family

relationship with Ada, thus they are not deductible as alimony by the husband.

Court's Reasoning

The Tax Court focused on the nature of the payments under the Internal Revenue Code of 1939, specifically Sections 22(k) and 23(u). The court determined that the payments were not in discharge of any legal obligation of Faber's due to the marital or family relationship. Faber was not legally obligated to support William since he had not adopted him. The court stated, "[T]he amounts paid to William were purely voluntary on the part of the petitioner so far as this record shows, and therefore not within the intendment of section 22 (k)."

The court distinguished the case from situations where payments are made for the wife's benefit, even if indirectly related to the children. The court also clarified that the exclusionary language in section 22(k), which disallows deductions for amounts fixed for the support of minor children of the husband, does not provide any affirmative support for a deduction where payments are not for the wife's support and not for the husband's child. The court also cited to the legislative history to emphasize the purpose was to include payments in the wife's gross income only if they were truly alimony or maintenance.

The court found that the agreement specifically allocated funds for William's benefit. The court also pointed out that the agreement provided that payments allocated to William would cease if William died, which was a clear indication that the payments were for the benefit of William, not Ada. The court also distinguished this case from one where a husband could deduct payments to his former mother-in-law, in which the agreement said the payments were "for and in behalf of" the wife.

Practical Implications

This case establishes a critical distinction in divorce settlements: payments specifically earmarked for the support of children (especially stepchildren who are not legally adopted) are not treated as alimony and thus are generally not deductible by the payer. The focus is on whether the payment is in discharge of the husband's legal obligation arising out of the marital or family relationship to his wife. The court will look closely at the terms of the divorce agreement. Any ambiguity in an agreement may be resolved against a taxpayer claiming a deduction. Furthermore, practitioners should carefully draft divorce agreements to clearly define the purpose of payments and the beneficiaries. If the intent is to make payments deductible as alimony, the payments should be designated for the former spouse's support and be structured in a way that complies with the current tax laws. In contrast, payments directly for a child (not of the husband) are typically not deductible and may not be considered income to the custodial parent.

Later cases have followed this principle. The focus remains on the nature of the obligation and the allocation of payments within the divorce decree. Legal professionals handling divorce or separation agreements must precisely delineate payment purposes to ensure proper tax treatment for their clients.