30 T.C. 339 (1958)

Payments made under a post-divorce agreement, even if not explicitly part of the divorce decree, can be considered alimony and thus taxable income if the agreement is considered incident to the divorce status and discharges a legal obligation arising from the marital relationship.

Summary

In *Heath v. Commissioner*, the U.S. Tax Court addressed whether payments received by a divorced wife, Alice L. Heath, from her ex-husband, Maurice Newton, under a 1930 "property agreement" were taxable as alimony income. Heath argued that the payments were made in consideration of her agreement regarding the custody of the children, not for support. The court held that these payments were includible in her income under Section 22(k) of the Internal Revenue Code of 1939 because the 1930 agreement was a modification of the original divorce settlement and the payments were in discharge of a legal obligation arising out of the marital or family relationship. This was despite the absence of a direct link between the payments and the divorce decree.

Facts

Alice L. Heath and Maurice Newton divorced in France in 1924. Before the divorce, they established a trust for Heath's support. The divorce decree itself made no provision for alimony. In 1928, Heath and Newton entered a "property agreement" alongside a custody agreement. This agreement provided that Newton would pay Heath $6,000 annually. In 1930, they entered into a new "property agreement" which canceled the 1928 agreement and increased the annual payments to $11,000. The 1930 agreement was not incorporated into the divorce decree. Heath received payments under the 1930 agreement in 1943, 1944, and 1945, and did not report them as income. The IRS determined that the payments were alimony and thus taxable. Notably, in a separate case, the Court of Appeals for the Second Circuit held that similar payments by Newton were deductible by him as alimony. Additionally, the original trust fund established in 1924 was lost by the end of 1932, which prompted the 1930 "property agreement."

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