

### **33 T.C. 331 (1959)**

When a divorce decree or agreement specifies payments are for child support, the amounts are not deductible as alimony by the paying spouse, even if the payments are labeled “alimony.”

#### **Summary**

The U.S. Tax Court addressed whether payments made by a husband to his former wife, pursuant to a divorce decree, were deductible as alimony. The agreement specified that the husband would pay a set amount monthly, decreasing as each of their three children reached adulthood or became self-supporting, with all payments ceasing upon the youngest child’s 21st birthday. The court held that the payments were primarily for child support and, therefore, not deductible as alimony, regardless of how they were initially characterized. The court focused on the substance of the agreement, finding that the contingencies tied the payments directly to the children’s well-being.

#### **Facts**

William Ashe and Rosemary Ashe divorced in 1945. Their divorce decree incorporated an agreement requiring William to pay Rosemary \$250 per month, which was labeled as alimony. This amount was to be reduced by one-third when each of their three children either reached the age of 21 or became self-supporting and the payments were to cease altogether when the youngest child turned 21. Later, a 1949 journal entry revised the agreement, further specifying the reduction of payments corresponding to the children’s milestones. William claimed these payments as alimony deductions on his 1953 and 1954 tax returns. The IRS disallowed the deductions, arguing that they were child support payments.

#### **Procedural History**

The Commissioner of Internal Revenue disallowed Ashe’s claimed deductions for alimony on his 1953 and 1954 tax returns. Ashe petitioned the United States Tax Court to challenge the disallowance.

#### **Issue(s)**

1. Whether the monthly payments of \$250, made by William Ashe to his former wife under the divorce decree, constituted alimony payments deductible by him under the relevant sections of the Internal Revenue Code.

#### **Holding**

1. No, because the divorce agreement’s provisions demonstrated that the payments were designated for child support, not alimony.

## **Court's Reasoning**

The court relied on the substance over form principle, examining the divorce decree's provisions, rather than the label attached to the payments. The court applied the Internal Revenue Codes of 1939 and 1954, which allowed deductions for alimony if the payments were includible in the recipient's gross income and were not specifically designated for child support. The court found that the agreement's provision for decreasing payments as the children reached adulthood or became self-supporting, and its termination upon the youngest child's 21st birthday, indicated that the payments were fundamentally for the children's support. The court stated, "In our opinion these provisions clearly lead to the conclusion that the parties earmarked, or "fixed," the entire \$250 monthly payment as payable for the support of the minor children." The fact that the agreement was amended to explicitly call the payments "alimony" was not controlling. The court noted that it would not be bound by such labels, especially if the payments are in reality for the support of the children. It also rejected the argument that the "nunc pro tunc" entry should dictate the tax treatment. The court distinguished the case from others involving less specific arrangements.

## **Practical Implications**

This case provides a clear guide for determining the taxability of payments made pursuant to divorce. The court's focus on the substance of the agreement and its emphasis on whether payments are tied to the children's support, and not just the label of alimony, are crucial for tax planning. Lawyers advising clients in divorce proceedings must carefully draft agreements to clearly delineate support obligations. Specific provisions detailing reductions in payments upon children reaching milestones are likely to be viewed as child support. Future court decisions will likely continue to apply this analysis, scrutinizing the actual purpose and terms of divorce agreements. Businesses that deal with family law may see this case cited as a precedent in litigation.