Thompson v. Commissioner, 50 T. C. 522, 1968 U. S. Tax Ct. LEXIS 104 (U. S. Tax Ct. June 27, 1968)

A portion of a lump-sum alimony payment, payable in installments over more than 10 years, is taxable as periodic income under IRC section 71 when it is made in discharge of a support obligation.

Summary

In Thompson v. Commissioner, the Tax Court held that $3,800 of an $8,000 payment received by Wilma Thompson from her former husband was taxable as alimony under IRC section 71. The payment was part of a $38,000 lump-sum alimony award, payable in installments over more than 10 years, ordered in their 1963 Indiana divorce decree. The court determined that the payment was for support, not a property settlement, because Thompson failed to prove she owned any property in exchange for the award. This decision clarifies that even lump-sum alimony payments can be partially taxable if structured as periodic payments under section 71(c)(2).

Facts

Wilma Thompson and Charles Thompson, Jr. , were married in 1937 and divorced in 1963. During their marriage, they acquired farmland as tenants by the entirety. In 1961, they transferred this and other farmland to a new corporation, Thompson Farms, Inc. , which issued stock to Charles and his sons but not to Wilma. In the divorce, Wilma alleged she owned half of the stock received for the land transfers. The divorce decree awarded Wilma $38,000 as alimony, payable in installments over more than 10 years, secured by a second mortgage on a farm. In 1963, Charles paid Wilma $8,000, and the IRS determined $3,800 of this payment was taxable under IRC section 71.

Procedural History

Wilma Thompson filed a petition in the U. S. Tax Court challenging the IRS’s determination of a $736. 89 deficiency in her 1963 income tax, arguing that the $8,000 payment was not taxable. The Tax Court held a trial and issued its opinion on June 27, 1968, deciding in favor of the Commissioner and holding that $3,800 of the payment was taxable as alimony.

Issue(s)

1. Whether $3,800 of the $8,000 payment received by Wilma Thompson from her former husband in 1963 is taxable as alimony under IRC section 71(a)(1).

Holding

1. Yes, because the $3,800 portion of the payment met the requirements of a

periodic payment under IRC section 71(c)(2) and was made in discharge of Charles Thompson's obligation to support Wilma, not as a property settlement.

Court's Reasoning

The Tax Court applied IRC section 71, which taxes periodic alimony payments made in discharge of a support obligation. The court found that the $38,000 lump-sum award, payable over more than 10 years, qualified as periodic payments under section 71(c)(2), making the lesser of 10% of the principal sum or the actual payment taxable. The court rejected Wilma's argument that the payment was for her property interests, as she failed to prove ownership of any property or stock in Thompson Farms, Inc. The court noted that the divorce decree's characterization as alimony was not conclusive but considered the payment's nature under federal tax law. The court also inferred that the parties agreed to the tax treatment, as evidenced by their waiver of appeal rights and provision for a joint tax return for 1962.

Practical Implications

This decision impacts how lump-sum alimony awards structured as periodic payments over more than 10 years are treated for tax purposes. Attorneys should advise clients that such payments can be partially taxable under IRC section 71, even if labeled as alimony in the divorce decree. The ruling emphasizes the importance of proving property ownership when arguing that payments are for property settlements rather than support. This case has been cited in later decisions to clarify the distinction between taxable alimony and nontaxable property settlements, influencing how divorce decrees are drafted to achieve desired tax outcomes.