Harris v. Commissioner, 51 T. C. 980 (1969)

Payments designated as child support in divorce decrees are not deductible as alimony, and withholding taxes reduce the amount required to be shown on a return for late filing penalties.

Summary

In Harris v. Commissioner, the U. S. Tax Court ruled that payments labeled as 'alimony' but specifically designated for child support in court decrees are not deductible under Section 215 of the Internal Revenue Code. Cleveland J. Harris made payments to his former wife, which he claimed as alimony deductions. However, the court found these payments were fixed as child support, thus not deductible. Additionally, the court held that Harris was not liable for an addition to tax for late filing of his 1965 return, as his withholding taxes exceeded his tax liability, reducing the amount required to be shown on the return to zero.

Facts

Cleveland J. Harris was ordered by a Louisiana court to pay $125 monthly 'alimony pendente lite' for the support of his three minor children in 1961. In 1962, the court adjusted this to $130 monthly, explicitly stating it was for the children's support. Harris made these payments totaling $1,560 annually from 1963 to 1965 and claimed them as alimony deductions on his tax returns. He filed his 1965 return late, but his employer had withheld $766. 90, more than his tax liability and the deficiency determined by the Commissioner.

Procedural History

The Commissioner disallowed Harris's alimony deductions and determined deficiencies for 1963-1965, along with an addition to tax for late filing in 1965. Harris petitioned the U. S. Tax Court, which consolidated the cases and upheld the disallowance of deductions but reversed the addition to tax.

Issue(s)

1. Whether payments labeled as 'alimony' but designated for child support in court decrees are deductible under Section 215.
2. Whether Harris is liable for an addition to tax under Section 6651(a) for late filing of his 1965 return.

Holding

1. No, because the payments were specifically designated as child support in the court decrees, thus falling under Section 71(b) and not deductible under Section 215.
2. No, because withholding taxes paid before the return's due date reduced the

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amount required to be shown on the return to zero, eliminating the basis for the addition to tax.

Court’s Reasoning

The court interpreted the decrees, finding that the payments were explicitly for child support, despite being labeled ‘alimony’ under Louisiana law. The court relied on Section 71(b), which excludes child support payments from alimony deductions. It referenced Commissioner v. Lester, emphasizing that payments must not be specifically earmarked for child support to be deductible. For the late filing issue, the court applied Section 6651(b), which reduces the amount required to be shown on the return by any taxes paid before the due date. Harris’s withholding taxes exceeded his tax liability, thus no addition to tax was due. The court noted that the Commissioner’s regulations supported this interpretation.

Practical Implications

This decision clarifies that the substance of payments, not their label, determines their tax treatment. Practitioners must carefully review divorce decrees to ensure payments claimed as alimony are not designated for child support. The ruling also affects how late filing penalties are calculated, emphasizing the importance of withholding taxes in reducing or eliminating such penalties. Subsequent cases like Tinsman have followed this precedent, reinforcing the need for clear designations in divorce decrees. This case is significant for tax planning in divorce situations and understanding the interplay between tax obligations and court-ordered payments.

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