Brodersen v. Commissioner, 57 T. C. 412 (1971)

Premiums paid on a term life insurance policy to secure alimony payments are not deductible under IRC § 215 if they do not confer an economic benefit on the wife.

Summary

In Brodersen v. Commissioner, the U. S. Tax Court held that premiums paid by a former husband on a decreasing-term life insurance policy, which secured alimony payments but did not provide the wife with an economic benefit, were not deductible under IRC § 215. The policy was purchased solely for security, not for conferring additional financial advantages to the wife. The court distinguished between term and whole life policies, ruling that the term policy's protection did not equate to taxable income for the wife. This case underscores the importance of the nature of the insurance policy in determining tax implications in divorce settlements.

Facts

William H. Brodersen, Jr. , and his former wife, Barbara, were divorced in 1965 with a property settlement agreement in lieu of alimony. The agreement required Brodersen to pay Barbara $137,000 over 12 years and to purchase a $125,000 decreasing-term life insurance policy on his life, naming Barbara as owner and beneficiary to secure these payments. The policy was selected by Brodersen and his attorney as the most economical means of providing security. Barbara did not participate in the policy's selection and was unaware of its terms, including a conversion privilege that required Brodersen's consent to exercise. In 1966, Brodersen paid a premium of $555 and claimed it as a deduction on his tax return.

Procedural History

The Commissioner of Internal Revenue disallowed the deduction, asserting the premiums did not confer an economic benefit on Barbara. Brodersen petitioned the U. S. Tax Court, which upheld the Commissioner's determination, ruling that the premiums were not deductible under IRC § 215.

Issue(s)

1. Whether the premium payments made by Brodersen on a decreasing-term life insurance policy, purchased pursuant to a divorce decree and naming his former wife as owner and beneficiary, are deductible under IRC § 215.

Holding

1. No, because the premiums paid did not confer an economic benefit on Barbara, and thus were not includable in her gross income under IRC § 71, making them non-deductible for Brodersen under IRC § 215.

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Court’s Reasoning

The court reasoned that the term life insurance policy was acquired solely to secure alimony payments, not to provide Barbara with additional economic benefits. The decreasing nature of the policy’s coverage aligned with the diminishing alimony obligation, indicating its purpose was security, not additional income. The court emphasized that term insurance does not offer the cash value or investment benefits of whole life insurance, which previous cases found to confer economic benefits. The court also noted Barbara’s lack of awareness and control over the policy, including the conversion feature, further supporting its conclusion that the premiums did not provide her with taxable income. A dissenting opinion argued that the secured obligation should be considered an economic benefit, but the majority rejected this view for term insurance policies.

Practical Implications

This decision affects how similar cases should be analyzed, focusing on whether the insurance policy confers a direct economic benefit beyond mere security. For legal practitioners, it is crucial to differentiate between term and whole life insurance in divorce settlements, as the tax implications can vary significantly. The ruling may influence negotiation strategies in divorce proceedings, with parties potentially favoring whole life policies if seeking to leverage tax deductions. The case has been cited in subsequent decisions to distinguish between types of insurance and their tax treatment in marital dissolutions. Practitioners should carefully structure settlement agreements to align with the tax objectives of their clients, considering this ruling’s limitations on deductibility for term insurance premiums used as security.

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