Knobler v. Commissioner, 59 T. C. 261 (1972)

Payments made pursuant to a pre-divorce support order remain taxable to the recipient even after divorce unless the order is vacated.

Summary

Jeanne Knobler received $2,450 from her former husband in 1967, following a 1964 support order from a Pennsylvania Quarter Sessions Court. Despite their 1966 divorce, which typically ends support obligations, the husband did not vacate the order, so the payments remained taxable under Section 71(a)(3) of the Internal Revenue Code. The Tax Court held that these payments were for Knobler's support and thus should be included in her gross income, emphasizing the legal principle that support orders remain enforceable post-divorce until vacated.

Facts

In 1964, Jeanne Knobler obtained a support order from the Quarter Sessions Court of Montgomery County, Pennsylvania, requiring her husband Robert to pay $45 weekly for her and their three children's support. In 1966, Robert obtained an absolute divorce from Jeanne, which ordinarily terminates support obligations. However, Robert did not petition the Quarter Sessions Court to vacate the support order. In 1967, Jeanne received $2,450 from Robert, which she did not report as income on her tax return for that year.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Jeanne Knobler's 1967 income tax, asserting that the $2,450 received from Robert should have been included in her gross income. Jeanne challenged this in the United States Tax Court. The court reviewed the case under Rule 30 and 50, focusing on the tax implications of the support payments received after the divorce.

Issue(s)

1. Whether payments made to Jeanne Knobler by her former husband in 1967, pursuant to a pre-divorce support order, are includable in her gross income under Section 71(a)(3) of the Internal Revenue Code.

Holding

1. Yes, because the payments were made under a valid support order that remained in effect after the divorce, as Robert did not petition to have it vacated.

Court's Reasoning

The court applied Section 71(a)(3) of the Internal Revenue Code, which includes in

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gross income periodic payments received by a wife from her husband under a decree for her support or maintenance, even if the payments occur after divorce. The court noted that the support order from the Quarter Sessions Court remained enforceable because it was not vacated despite the divorce. The court cited Pennsylvania law, which requires a husband to petition the court to vacate a support order before discontinuing payments post-divorce. The court also referenced Revenue Rulings that support the inclusion of such payments in income unless the order is vacated or declared invalid. The court emphasized that the term "separated" in the statute includes post-divorce situations, and "husband" and "wife" can be read as "former husband" and "former wife" where applicable.

Practical Implications

This decision clarifies that support payments made under a pre-divorce order remain taxable to the recipient even after divorce unless the order is formally vacated. Legal practitioners must advise clients to seek the vacation of support orders upon divorce to avoid unintended tax consequences. This ruling impacts family law practice, as it underscores the importance of addressing all existing support orders during divorce proceedings. It also affects how divorced individuals handle tax reporting of support payments received. Subsequent cases and IRS rulings have followed this principle, reinforcing the need for clear action to terminate support obligations post-divorce.

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