***Wright v. Commissioner, 62 T. C. 377 (1974)***

Divorce payments qualify as alimony for tax purposes if they are periodic, in discharge of a marital obligation, and specified in a divorce decree or related instrument.

**Summary**

In Wright v. Commissioner, the U. S. Tax Court ruled on the tax treatment of divorce settlement payments, distinguishing between alimony and property division. The case involved William Wright's obligation to pay Jean Wright $228,000 over 10. 5 years as part of their divorce settlement. The court determined these payments were alimony because they were periodic, in discharge of a marital obligation, and specified in the divorce decree. However, premiums William paid on a term life insurance policy owned by Jean were not taxable to her as they did not confer a present economic benefit. The ruling clarified how to differentiate alimony from property settlements for tax purposes, impacting how future divorce agreements are structured and reported.

**Facts**

William and Jean Wright divorced in 1967. Their divorce agreement stipulated that Jean would receive all her property and additional assets from William, including a farm and furnishings. William agreed to pay Jean $228,000 over 10. 5 years, starting October 4, 1967, secured by stocks in escrow. He also agreed to pay premiums on a $200,000 term life insurance policy owned by Jean until her death, remarriage, or age 65. The divorce decree explicitly denied alimony but required these payments. William made payments of $22,200 in 1968, and $21,600 in both 1969 and 1970, claiming them as alimony deductions. The IRS challenged these deductions and assessed additional income to Jean.

**Procedural History**

William and Jean filed separate tax petitions challenging the IRS's determinations. The IRS had taken inconsistent positions, asserting the payments were alimony for Jean but not deductible by William. The Tax Court consolidated the cases and ruled on the tax treatment of the payments and insurance premiums.

**Issue(s)**

1. Whether the $228,000 payments from William to Jean are taxable to her as alimony under IRC Section 71.
2. Whether the life insurance premiums paid by William are taxable to Jean as alimony.

**Holding**

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1. Yes, because the payments were periodic, discharged a marital obligation, and were specified in the divorce decree, making them taxable to Jean as alimony under IRC Section 71.
2. No, because the premiums did not confer a present economic benefit to Jean, thus they are not taxable to her as alimony.

**Court’s Reasoning**

The court applied IRC Sections 71 and 215, which govern the tax treatment of alimony. For the $228,000 payments, the court found they were periodic under Section 71(c)(2) because they were to be paid over more than 10 years from the date of the decree. The court emphasized that these payments were in discharge of William’s marital obligation to support Jean, not a division of property, as Jean received all her own assets plus additional payments. The court rejected the argument that the payments were for Jean’s inchoate property rights, citing that such rights do not equate to co-ownership. For the insurance premiums, the court followed its precedent in William H. Brodersen, Jr. , holding that Jean did not receive a present economic benefit from the term life policy, as her rights were contingent on William’s death within a specified period. The court noted that the policy’s contingent nature meant it did not confer a taxable benefit to Jean.

**Practical Implications**

This decision clarifies that for divorce payments to be treated as alimony for tax purposes, they must be periodic, arise from a marital obligation, and be specified in a divorce decree or related instrument. Practitioners should structure divorce agreements carefully, considering the timing and nature of payments to achieve desired tax outcomes. The ruling also highlights that payments for insurance premiums may not be taxable if they do not confer a present economic benefit. This case has influenced subsequent cases in distinguishing between alimony and property settlements, affecting how divorce agreements are drafted and reported for tax purposes. It underscores the importance of clear language in divorce decrees to specify the nature of payments and their tax implications.

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