Prince v. Commissioner, 63 T. C. 653 (1975)

An oral agreement stipulated in open court and transcribed can be considered a written instrument under section 71 for tax purposes.

Summary

In Prince v. Commissioner, the court ruled that an oral property settlement agreement, recited in open court and transcribed, met the requirement of a "written instrument" under section 71 of the Internal Revenue Code. The case centered on whether periodic payments made by Betty Prince's former husband were taxable alimony. The court found that the agreement, effective from October 29, 1965, obligated payments over a period longer than 10 years, thus qualifying under section 71(c)(2). This decision underscores the legal enforceability of oral agreements when properly documented in court proceedings and their tax implications.

Facts

Betty C. Prince initiated divorce proceedings against Floyd J. Prince in 1964. On October 29, 1965, they orally agreed in court to a property settlement, stipulating Floyd would pay Betty $77,440 over 121 months in lieu of alimony. The agreement was recorded by a court reporter and later incorporated into the interlocutory divorce judgment entered on November 30, 1965. In 1971, Betty received $7,040 from Floyd under this agreement but did not report it as income, prompting the IRS to determine a deficiency.

Procedural History

The IRS assessed a deficiency in Betty's 1971 income tax, which she contested. The case was heard by the Tax Court, where the IRS conceded one issue but contested the tax treatment of the payments received by Betty. The Tax Court ruled in favor of the IRS, holding the payments were taxable under section 71.

Issue(s)

1. Whether an oral agreement stipulated in open court and transcribed constitutes a "written instrument" under section 71 of the Internal Revenue Code.
2. Whether the payments received by Betty Prince in 1971 were periodic alimony payments under sections 71(a)(1) and 71(c)(2).

Holding

1. Yes, because the oral agreement, when recorded and transcribed, satisfied the purpose of the writing requirement under section 71.
2. Yes, because the payments were made over a period longer than 10 years from the effective date of the agreement, qualifying them as periodic payments under

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section 71(c)(2).

Court’s Reasoning

The Tax Court determined that the oral agreement, being stipulated in open court, recorded, and transcribed, met the statutory requirement for a “written instrument” under section 71. The court emphasized that the purpose of the writing requirement is to ensure adequate proof of the obligation’s existence and terms, which was satisfied in this case. The court also found that the agreement’s effective date was October 29, 1965, the day it was stipulated in court, not the date of the interlocutory judgment’s entry. This allowed the payments to qualify under section 71(c)(2) as they were to be paid over a period longer than 10 years from the agreement’s effective date. The court cited previous cases like Maurice Fixler and Lerner v. Commissioner to support its interpretation of the writing requirement. The court also noted the parties’ intent to be bound by the agreement immediately, further evidenced by their commencement of payments on November 1, 1965.

Practical Implications

This decision clarifies that oral agreements stipulated in open court and transcribed can be treated as written instruments for tax purposes, impacting how attorneys draft and present divorce agreements. It emphasizes the importance of documenting agreements during court proceedings to ensure they meet tax code requirements. For legal practitioners, this case highlights the need to consider the effective date of agreements in relation to tax implications, especially when structuring payments over extended periods. Businesses and individuals involved in divorce settlements must be aware that the timing and form of agreements can significantly affect their tax liabilities. Subsequent cases, such as William C. Wright, have further explored the interplay between state law and federal tax implications of divorce agreements.

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