Gammill v. Commissioner, 73 T. C. 921 (1980)

Payments made as part of a property settlement in a divorce are not subject to tax under sections 71 and 215, and section 483 does not apply to impute interest to such payments.

Summary

In Gammill v. Commissioner, the U. S. Tax Court determined that a $250,000 money judgment awarded to Marjorie Gammill in her divorce from John Gammill was part of a property settlement, not alimony. Therefore, these payments were not taxable to Marjorie under section 71(a)(1) nor deductible by John under section 215(a). Additionally, the court ruled that section 483, which imputes interest to deferred payments in sales or exchanges, does not apply to divorce property settlements. The decision was based on the explicit terms of the divorce agreement and decree, which labeled the payment as a property division, and the court's interpretation of relevant tax statutes.

Facts

Marjorie and John Gammill divorced in 1970. As part of the divorce settlement, John was ordered to pay Marjorie $250,000, which the divorce decree and the parties' property settlement agreement explicitly stated was a property division and not alimony. The payment was to be made without interest in monthly installments over 20 years, secured by a lien on John's stock in Reserve National Insurance Co. Marjorie also received other assets, including an office building leased to Reserve National. John retained ownership of his stock and other marital assets. The IRS challenged the tax treatment of these payments, asserting they were taxable to Marjorie and deductible by John.

Procedural History

The Tax Court consolidated three related cases involving the Gammills. The IRS issued deficiency notices to Marjorie and John for the years 1971-1973, asserting that the payments should be treated as alimony. The taxpayers petitioned the Tax Court for redetermination of these deficiencies. The court's decision was rendered on February 28, 1980, ruling in favor of Marjorie on the tax treatment of the payments and in favor of the IRS on John's claim for deductions under section 483.

Issue(s)

1. Whether the $250,000 payments received by Marjorie Gammill from John Gammill are includable in her gross income under section 71(a)(1) and therefore deductible by John under section 215(a).
2. Whether John Gammill is entitled to deductions for imputed interest under section 483 if the payments are determined to be part of a property settlement.

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Holding

1. No, because the payments were part of a property settlement as explicitly stated in the divorce decree and agreement, and not periodic payments in the nature of support.
2. No, because section 483 was not intended to apply to property settlements incident to divorce.

Court's Reasoning

The Tax Court emphasized that the labels assigned to payments in divorce agreements are not conclusive but must be considered in light of surrounding circumstances. In this case, the court found the language of the agreement and decree clear: the payment was for property division, not support. The court also considered Oklahoma law, which allowed for a "just and reasonable" division of jointly acquired property upon divorce. The court rejected John's argument that the payments were intended for Marjorie's support, noting that she received an income-producing asset (the office building) as part of the settlement. Regarding section 483, the court followed the Third Circuit's decision in Fox v. United States, holding that this section does not apply to divorce property settlements because its purpose is to prevent tax manipulation in commercial transactions, not to govern the tax treatment of divorce-related payments.

Practical Implications

This decision clarifies that payments explicitly designated as property settlements in divorce agreements are not subject to the tax treatment of alimony under sections 71 and 215. It also establishes that section 483, which imputes interest to deferred payments in sales or exchanges, does not apply to such settlements. Practitioners should ensure that divorce agreements clearly state the intended tax treatment of payments. The ruling may influence how parties structure divorce settlements to achieve desired tax outcomes. Subsequent cases have generally followed this interpretation, though some have distinguished it when applying section 483 to other types of transactions like corporate reorganizations.

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