Tyrer v. Commissioner, 77 T. C. 577 (1981)

Alimony payments offset by credits are taxable income to the recipient despite no actual exchange of funds.

Summary

In Tyrer v. Commissioner, the court held that alimony payments offset by credits are taxable to the recipient. Myrtle Tyrer was to receive $2,000 monthly alimony but a court order later credited her husband $1,000 monthly against this obligation due to her conversion of his property. The Tax Court ruled that Tyrer must include the full $2,000 monthly in her income, as the credit did not change the alimony's character, despite no actual money exchange. This decision emphasizes the substance over form doctrine in tax law, affecting how alimony and property settlements are treated for tax purposes.

Facts

Myrtle M. Tyrer was divorced in 1973, with a decree awarding her $2,000 monthly alimony for 150 months. In 1974, a subsequent order awarded her former husband $21,000 for property conversion by Tyrer, to be credited against his alimony obligation at $1,000 monthly for 21 months. Tyrer reported only the $1,000 she actually received each month in 1975 as income, but the IRS determined she should include the full $2,000 monthly.

Procedural History

The IRS issued a deficiency notice to Tyrer for 1975, asserting she should have included $24,000 as alimony income. Tyrer petitioned the Tax Court, which held that the full $2,000 monthly was taxable to her, resulting in a decision for the Commissioner.

Issue(s)

1. Whether payments offset by credits, but not actually exchanged, constitute "payments" under Section 71(a)(1) of the Internal Revenue Code?
2. Whether such offset payments are taxable as alimony under Section 71(a)(1)?
3. Whether the payments, as modified, are "periodic" under Section 71(a)(1)?

Holding

1. Yes, because the substance of the transaction shows Tyrer received the full benefit of the alimony obligation despite no actual exchange of funds.
2. Yes, because the offset payments were in discharge of a legal obligation of support and did not change their character as alimony.
3. Yes, because the payments were subject to termination upon the death of either spouse, thus qualifying as "periodic. "

Court's Reasoning

The Tax Court applied the substance over form doctrine, holding that Tyrer received the economic benefit of the full $2,000 monthly alimony despite the offset by credits. The court cited Pierce v. Commissioner and Smith v. Commissioner to support that offset payments are still considered "payments" for tax purposes. The court rejected Tyrer's argument that the offset payments were in settlement of property rights, as they were in discharge of the husband's alimony obligation. The court also found the payments to be "periodic" because they terminated upon the death of either party, adhering to Section 71(a)(1) and related regulations.

Practical Implications

This decision impacts how alimony and property settlements are treated for tax purposes, emphasizing that the economic substance of transactions governs tax consequences. Attorneys should advise clients that alimony obligations offset by credits remain taxable income to the recipient. This ruling may influence how divorce agreements are structured to manage tax liabilities. Subsequent cases like Beard v. Commissioner have cited Tyrer to uphold the principle that offset payments are taxable as alimony. Practitioners should consider this when drafting divorce decrees to ensure clarity on tax treatment of payments.