White v. Commissioner, 83 T. C. 160 (1984)

Installment payments can be treated as periodic for tax purposes if they are part of a single support obligation extending over more than 10 years, even if some payments are not contingent.

Summary

In White v. Commissioner, the Tax Court ruled that Robert White's payments to his ex-wife Nancy under their divorce agreement were deductible as alimony. The agreement required Robert to pay Nancy $720,000 over 20 years in two components: $180,000 over 6 years (non-contingent) and $540,000 over 20 years (contingent on Nancy's death or remarriage). The court held that all payments were periodic under IRC § 71(c)(2) because they were part of a single 20-year support obligation, allowing Robert to deduct them and Nancy to include them in income. This decision impacts how alimony payments structured in multiple components should be treated for tax purposes.

Facts

Robert and Nancy White divorced in 1969 after 27 years of marriage. Their divorce agreement required Robert to pay Nancy $720,000 over 20 years: $180,000 in 72 equal monthly payments of $2,500 (non-contingent) and $540,000 in 240 equal monthly payments of $2,250 (contingent on Nancy's death or remarriage). The agreement labeled these payments as "alimony in gross" in lieu of permanent alimony. Robert deducted all payments on his tax returns, but Nancy only included the contingent payments in her income. The IRS challenged this treatment, asserting that all payments should be included in Nancy's income and deducted by Robert.

Procedural History

The IRS issued notices of deficiency to both Robert and Nancy for tax years 1969-1974, asserting that Robert could not deduct the non-contingent payments and Nancy must include them in income. Both petitioned the Tax Court. The court consolidated the cases and ruled in favor of Robert, allowing him to deduct all payments and requiring Nancy to include them in income.

Issue(s)

1. Whether the non-contingent payments under subparagraph 5(a) of the divorce agreement are periodic payments includable in Nancy's gross income and deductible by Robert under IRC §§ 71 and 215.

2. Whether the statute of limitations barred the IRS from assessing deficiencies against Nancy for tax years 1969 and 1970.

Holding

1. Yes, because the non-contingent payments are part of a single 20-year support obligation that qualifies as periodic under IRC § 71(c)(2).

2. No, because the statute of limitations was extended by agreement and the omitted income exceeded 25% of Nancy's reported gross income.

Court's Reasoning

The court analyzed the divorce agreement as a whole, finding that the payments in subparagraphs 5(a) and 5(b) were components of a single support obligation. The court rejected Nancy's argument that the non-contingent payments should be analyzed separately, citing the agreement's structure and the parties' intent to treat all payments as support. The court applied IRC § 71(c)(2), which allows installment payments to be treated as periodic if the payment period extends more than 10 years, to the entire 20-year obligation. The court noted that the agreement's labeling of payments as "alimony in gross" was not determinative, but the surrounding facts and circumstances supported treating all payments as support. The court also considered extrinsic evidence but found it unnecessary to resolve the case, as the agreement itself supported Robert's position. For the statute of limitations issue, the court found that the 6-year period under IRC § 6501(e)(1)(A) applied because Nancy omitted more than 25% of her gross income, and this period was further extended by agreement with the IRS.

Practical Implications

This decision impacts how divorce agreements should be structured and interpreted for tax purposes. Attorneys drafting such agreements should consider structuring all support payments as a single obligation if they want them to be treated as periodic under IRC § 71(c)(2), even if some components are non-contingent. This allows the payor to deduct the payments and the recipient to include them in income. The decision also clarifies that the labeling of payments in the agreement is not determinative; courts will look to the substance and overall structure of the agreement. For tax practitioners, this case highlights the importance of analyzing the entire agreement when determining the tax treatment of payments. It also serves as a reminder to consider the statute of limitations when challenging tax deficiencies, as significant omissions can extend the assessment period.

