

Armstrong v. Commissioner, 139 T. C. 468 (2012) (United States Tax Court, 2012)

In *Armstrong v. Commissioner*, the U. S. Tax Court ruled that a noncustodial parent cannot claim a dependency exemption based on a conditional court order. Billy Armstrong paid child support but couldn't claim his son as a dependent because his ex-wife's signed court order required him to stay current on support payments. The court held that such conditional releases do not meet the Internal Revenue Code's requirement for an unconditional written declaration from the custodial parent. This decision underscores the strict interpretation of dependency exemption rules and impacts how divorced parents allocate tax benefits.

Parties

Billy Edward Armstrong and Phoebe J. Armstrong were the petitioners. They were the taxpayers seeking to claim a dependency exemption for their child. The respondent was the Commissioner of Internal Revenue, responsible for enforcing tax laws and regulations.

Facts

Billy Armstrong, a truck driver, was divorced from Dawn Delaney. Their divorce included an arbitration award in May 2003 that allocated the dependency exemption for their child, C. E. , to Armstrong for 2003 and 2004, and for subsequent years provided he remained current with child support. A June 2003 state court order incorporated this award but did not require Delaney to provide Armstrong with a Form 8332, which is necessary for a noncustodial parent to claim the exemption. In March 2007, a new court order was issued, again requiring Delaney to sign a Form 8332 for Armstrong if he remained current with child support. Armstrong complied with his support obligations in 2007, but Delaney did not provide the Form 8332. Armstrong and his new wife, Phoebe, filed their joint 2007 federal income tax return, attaching the 2003 arbitration award instead of the required Form 8332.

Procedural History

The IRS examined Armstrong's 2007 return and disallowed the dependency exemption claim for C. E. , determining a deficiency and an accuracy-related penalty. Armstrong and his wife timely petitioned the Tax Court to redetermine the deficiency and penalty. The case was submitted without trial based on the parties' stipulation of facts under Rule 122 of the Tax Court Rules of Practice and Procedure.

Issue(s)

Whether Armstrong was entitled to claim a dependency exemption for C. E. for the tax year 2007 under I. R. C. section 152(e)(2), given that the custodial parent's release of the exemption was conditional upon Armstrong's payment of child support?

Whether Armstrong was liable for an accuracy-related penalty on the resulting deficiency?

Rule(s) of Law

Under I. R. C. section 152(e)(2), a noncustodial parent may claim a dependency exemption if the custodial parent signs a written declaration stating that they will not claim the child as a dependent for the taxable year, and the noncustodial parent attaches this declaration to their return. The declaration must be unconditional and conform to the substance of Form 8332.

Holding

The court held that Armstrong was not entitled to the dependency exemption for C. E. in 2007 because the custodial parent's declaration, as stated in the March 2007 court order, was conditional upon Armstrong's payment of child support and thus did not conform to the substance of Form 8332. The court also held that Armstrong was not liable for the accuracy-related penalty due to his reasonable belief in his entitlement to the exemption under the state court order and his good faith in attempting to comply with tax law.

Reasoning

The court reasoned that the March 2007 court order did not provide an unconditional release of the dependency exemption. The order's language tied Delaney's obligation to release the exemption to Armstrong's payment of child support, which did not comply with the requirement for an unconditional declaration under section 152(e)(2)(A). The court emphasized that the Internal Revenue Code removed the issue of proving support by the noncustodial parent from the equation, and any conditional declaration could not substitute for the statutorily mandated unconditional declaration. The court also considered the legislative history of section 152(e), which aimed to provide more certainty and reduce disputes over dependency exemptions. The court rejected the argument that Armstrong's compliance with the state court order's condition should suffice, as state courts cannot determine issues of federal tax law. Regarding the penalty, the court found that Armstrong's actions were not negligent, given his reliance on the state court order and his attempt to comply with the law by attaching the arbitration award to his return.

Disposition

The court entered a decision for the respondent regarding the deficiency but for the petitioners regarding the accuracy-related penalty.

Significance/Impact

This case clarifies the strict requirement for an unconditional written declaration

from the custodial parent for a noncustodial parent to claim a dependency exemption. It affects divorced parents by emphasizing that conditional court orders or agreements do not suffice under federal tax law. The ruling may influence state courts to reconsider how they allocate dependency exemptions and could lead to increased disputes over the execution of Form 8332. It also underscores the importance of clear communication and understanding of federal tax requirements in divorce agreements.