



Client Alert

March 23, 2011

COURT RULES AGAINST IRS IN PARENT'S PAYMENT OF DAUGHTER'S DEBTS

In a ruling against the Internal Revenue Service, a court recently found that an anxious parent's payment of a child's debts were a gift instead of taxable income.

The case involved a mother who was apparently worried that her daughter was financially irresponsible. Her daughter had liabilities that the mother wanted to be paid, but the mother did not want to give cash to her daughter. So the mother paid the liabilities directly to the claimants.

The Internal Revenue Service determined that the daughter had income from her mother's payments of her liabilities. But the court held that the mother's payments were gifts to the daughter and, hence, not taxable income.

The court's holding is fact-sensitive. If you are interested in taking advantage of the case, we suggest that you call one of the people in our tax department. We can help you determine whether your facts would come within the court's ruling.

IRS Circular 230 Notice

Internal Revenue Service regulations state that only a formal opinion that meets specific requirements can be used to avoid tax penalties. Any tax advice in this communication is not intended or written to be used, and cannot be used by a taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer, because it does not meet the requirements of a formal opinion.

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