Von Hoffmann v. Commissioner, 10 T.C. 314 (1948)

Nonforfeitable contributions made by an employer to a non-exempt employee trust are taxable to the employee in the year the contribution is made, not when actually distributed or made available.

Summary

Von Hoffmann, a beneficiary of employee pension trusts, disputed the Commissioner's determination of tax deficiencies related to contributions made by his employer to both exempt and non-exempt trusts. The Tax Court addressed when these contributions should be included in the employee's gross income. The court held that contributions to a formerly exempt trust were made in the year the obligation arose, not when physically paid. It further determined that contributions to non-exempt trusts are taxable to the employee in the year the contributions are made, regardless of when payments occur.

Facts

The Yon Hoffmann Corporation, a printing business, established an employee profit-sharing and pension trust in December 1941. In December 1942, the board of directors (including Von Hoffmann) resolved to contribute $40,000 to the trust, making the beneficiaries' interests nonforfeitable. The corporation accrued this amount on its books in 1942 but paid it in February 1943. The IRS determined a portion of this was deductible for the corporation in 1942 and the remainder in 1943, and taxable to Von Hoffmann in 1943. Later contributions were made to non-exempt trusts, and the IRS sought to tax Von Hoffmann on his share in the years the contributions were made.

Procedural History

The Commissioner determined deficiencies in Von Hoffmann's income and victory taxes for 1943 and income tax for 1944. Von Hoffmann petitioned the Tax Court to contest the Commissioner's assessment.

Issue(s)

1. Whether the petitioner received income in 1943 as a result of a contribution made by the Yon Hoffmann Corporation to a pension trust of which the petitioner was a beneficiary.
2. Whether the petitioner, as a beneficiary, received income during the taxable years from any of the contributions made by the Yon Hoffmann Corporation and the Yon Hoffmann Press to nonexempt employee pension trusts.
3. Whether a contribution made by the Yon Hoffmann Corporation to a pension trust of which the petitioner was a beneficiary was income for 1943 or was income for 1944.

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Holding

1. No, because the contribution was made in 1942 when the obligation to pay became fixed, not when it was physically paid in 1943.
2. Yes, because Section 165(c) of the Internal Revenue Code mandates that nonforfeitable contributions to a nonexempt trust are included in the employee's gross income in the year the contribution is made.
3. The contribution was income for 1942 and 1943 respectively, because the taxability to the employee depends on when the employer became obligated to make the payment, not when the payment was actually made.

Court's Reasoning

The court reasoned that under Section 165 of the Internal Revenue Code, the timing of the employer's contribution determines when it is taxable to the employee. For the initial contribution, the corporation used an accrual method, meaning the contribution was "made" in 1942 when the obligation became fixed due to the board resolution. The court emphasized that taxability depended on when the contribution was made, not when it was paid. Regarding contributions to non-exempt trusts, the court relied on Section 165(c), which explicitly states that nonforfeitable contributions to a nonexempt trust "shall be included in the gross income of an employee for the taxable year in which the contribution is made to the trust." The court cited Renton K. Brodie, 1 T. C. 275, and other cases to support the constitutionality of taxing employees on nonforfeitable contributions before actual distribution. The court stated, "Taxability to the employee under the applicable law depended not upon payment to the trust, but upon when the contribution was made."

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