10 T.C. 544 (1948)

To deduct contributions to an employee profit-sharing plan under Section 23(p) of the Internal Revenue Code as amended in 1942, the contributions must be made to a valid trust, and grace periods for compliance do not waive this fundamental trust requirement.

Summary

Tavannes Watch Co. sought to deduct payments made to Tavannes Associates, Inc., a corporation intended to operate as a profit-sharing plan for employees, for the fiscal years ending June 30, 1943, and June 30, 1944. The Tax Court disallowed the deductions because the payments were not made to a trust as required by the 1942 amendments to the Internal Revenue Code. While the company later established a formal trust that was approved by the Commissioner, this did not retroactively validate the prior contributions to the corporation. The court emphasized that the statutory grace provisions did not waive the requirement for a valid trust to exist during the years the deductions were claimed.

Facts

- In 1941, Tavannes Watch Co. established a profit-sharing plan with its employees, represented by three individuals. The plan involved payments to a corporation, Tavannes Associates, Inc., formed to manage the employees' profit-sharing.
- The corporation's stated purpose was to provide an incentive for employees to improve product quality and reduce customer complaints.
- Tavannes Associates, Inc. was incorporated with broad powers, including importing, exporting, manufacturing, and dealing in real estate and securities.
- Tavannes Watch Co. made contributions to Tavannes Associates, Inc. which were deducted for the fiscal years ended June 30, 1941, and 1942.
- In late 1944, Tavannes Watch Co. established a formal trust and transferred the assets of Tavannes Associates, Inc. to the trust. The amended plan was approved by the Commissioner.
- Tavannes Associates, Inc. primarily held cash and U.S. Treasury certificates, made short-term loans to Tavannes Watch Co., and did not engage in substantial business activities.

Procedural History

- The Commissioner of Internal Revenue disallowed deductions claimed by Tavannes Watch Co. for contributions made to Tavannes Associates, Inc. for the fiscal years ending June 30, 1943, and 1944.
- Tavannes Watch Co. petitioned the Tax Court for a redetermination of the tax deficiencies.

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Issue(s)

1. Whether contributions made by an employer to a corporation intended to operate as a profit-sharing plan are deductible as contributions to a

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