H.S.D. Co. v. Commissioner, 15 T.C. 166 (1950)

A pension plan can qualify for tax benefits under Section 165(a) of the Internal Revenue Code even if it includes stockholder-employees, provided the plan does not discriminate in their favor and the contributions or benefits bear a uniform relationship to compensation.

Summary

H.S.D. Co. sought to deduct contributions to its employee pension trust. The Commissioner argued the plan wasn't exclusively for employees' benefit and discriminated towards the two stockholder-employees who owned all the company stock, violating I.T. 3674's 30% rule. The Tax Court held that the plan qualified under Section 165(a). While contributions for stockholder-employees were higher, this stemmed from their age and the plan's uniform benefit formula tied to compensation, not prohibited discrimination. The court found I.T. 3674 a general rule inapplicable here, allowing the deduction.

Facts

H.S.D. Co. established a pension plan in 1941. The company's president and vice president owned all of its capital stock. Contributions for these two stockholder-employees exceeded the total contributions for all other employees in the tax years 1943 and 1944. The pension plan, as amended in 1943, provided for life insurance policies with retirement benefits equal to 30% of each employee's basic compensation upon reaching age 55, with a maximum benefit of $200 per month. All full-time employees with at least two years of service were included as beneficiaries.

Procedural History

H.S.D. Co. claimed deductions for contributions to its pension trust on its 1943 and 1944 tax returns. The Commissioner disallowed these deductions, arguing the plan did not meet the requirements of Section 165(a) of the Internal Revenue Code. The Tax Court reviewed the Commissioner's decision.

Issue(s)

1. Whether H.S.D. Co.'s pension plan was for the exclusive benefit of its employees, as required by Section 165(a)(1) and (2) of the Internal Revenue Code?
2. Whether H.S.D. Co.'s pension plan discriminated in favor of stockholder-employees, violating Section 165(a)(4) of the Internal Revenue Code?

Holding

1. Yes, because the plan's purpose was to distribute corpus to employees or their beneficiaries, and it was impossible to use or divert the corpus for other

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purposes.
2. No, because while contributions for stockholder-employees were higher, the plan provided uniform benefits based on compensation, and the disparity resulted from age and the number of non-stockholder employees, not prohibited discrimination.

Court’s Reasoning

The court reasoned that Section 165(a) does not prohibit stockholder-employees from participating in a pension plan; it only prohibits discrimination in their favor. The court emphasized that Section 165(a)(5) states a plan isn’t discriminatory

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