17 T.C. 217 (1951)

Employer contributions to certain employee annuity trusts are not included in the employee's income in the year the contributions are made, even if the trust doesn't qualify for tax exemption under Section 165(a) of the Internal Revenue Code, provided specific conditions are met.

Summary

This case addresses whether contributions made by Berg-Allenberg corporation to a pension trust for the benefit of employees Berg and Allenberg, used to purchase annuity contracts, should be included in their individual income for 1942 and 1943. The court held that based on the newly enacted Section 165(d) of the Internal Revenue Code, these contributions were not includible in the employees' income because the contributions met the conditions outlined in the new provision, specifically that the funds were used to purchase annuities under a written agreement predating October 21, 1942, and the employees were not entitled to payments other than annuity payments during their lifetimes.

Facts

Berg and Allenberg were employees of the Berg-Allenberg corporation. In 1942 and 1943, the corporation contributed to a pension trust for the purpose of purchasing annuity contracts for Berg and Allenberg. The amounts contributed for Berg were $23,504 each year, and for Allenberg, $17,034 each year. The contributions were made pursuant to a written agreement dated June 30, 1940. The annuity contracts provided that Berg and Allenberg were not entitled to any payments other than annuity payments during their lifetimes. The pension trust itself was a subject of debate regarding its qualification as a tax-exempt employees' trust under Section 165(a) of the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue determined that the contributions made by the Berg-Allenberg corporation to the pension trust should be included in the individual income of Berg and Allenberg for the years 1942 and 1943. Berg and Allenberg petitioned the Tax Court to contest this determination. The case was submitted before the enactment of Public Law No. 378, which amended Section 165 of the Internal Revenue Code by adding subsection (d). The petitioners then argued that even if the trust was not tax-exempt under 165(a), the new subsection (d) provided relief.

Issue(s)

Whether contributions made by an employer to an employee annuity trust should be included in the employee's income for the year the contributions were made, when the trust may not qualify under section 165(a) of the Internal Revenue Code as a tax-

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exempt employees' trust, but the contributions meet the requirements of the newly enacted section 165(d).

Holding

Yes, the contributions do not need to be included in the employees' income because the contributions met the specific conditions outlined in Section 165(d) of the Internal Revenue Code. These conditions included the contributions being used to purchase annuity contracts, the contributions being made under a written agreement entered into before October 21, 1942, and the employees not being entitled to payments other than annuity payments during their lifetimes.

Court's Reasoning

The court based its reasoning on the provisions of subsection (d) of section 165, which was added by section 5(a) of Public Law No. 378. The court found that the facts showed that the conditions of subsection (d) were met. The contributions were applied by the trustees to purchase annuity contracts for Berg and Allenberg. These contributions were made pursuant to a written agreement entered into prior to October 21, 1942, between the employer and the trustees. Berg and Allenberg were not entitled to any payments other than annuity payments under the annuity contracts purchased by the trustees. As such, the court concluded that, under the provisions of subsection (d), the amounts contributed by the employer should not be included in the income of Berg and Allenberg in 1942 or 1943. The court noted that it was unnecessary to determine whether the pension trust was tax-exempt under section 165(a) (1) and (2).

Practical Implications

This case demonstrates the application of Section 165(d) of the Internal Revenue Code, offering a specific avenue for excluding employer contributions to employee annuity trusts from the employee's current income, even if the trust doesn't meet the general requirements for tax-exempt status under Section 165(a). It highlights the importance of adhering to the conditions outlined in 165(d), particularly the existence of a written agreement predating October 21, 1942. This case is a reminder that tax law is dynamic, and new legislation or amendments can drastically alter the tax treatment of certain transactions. It provides a historical perspective on how technical corrections can provide targeted relief in specific circumstances and influences the analysis of similar cases dealing with employee annuity trusts established before the specified cut-off dates.

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