14 T.C. 1192 (1950)

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An employer’s deduction for contributions to an employee profit-sharing plan, approved as tax-exempt under Section 165(a) of the Internal Revenue Code, is limited to the amount required by the predetermined formula of the plan, even if the actual contribution is less than 15% of employee compensation.

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Summary

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Wooster Rubber Co. contributed to a profit-sharing plan that had been approved by the Commissioner of Internal Revenue as an exempt trust. The company deducted the full amount of its contributions. The Commissioner argued that only the amount required by the plan’s predetermined formula was deductible, even though the company contributed more than required, but less than the 15% compensation limit under Section 23(p)(1)(C) of the Internal Revenue Code. The Tax Court agreed with the Commissioner, holding that only contributions required by the plan’s formula are deductible. This case clarifies the limitations on deductions for contributions to profit-sharing plans, emphasizing adherence to the plan’s specific terms.

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Facts

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Wooster Rubber Co. established a profit-sharing plan for its employees, which was approved by the IRS as an exempt trust under Section 165(a) of the Internal Revenue Code. The plan stipulated a contribution equal to 15% of employee compensation, but further limited the contribution based on a formula tied to the company’s net profits. For the fiscal years 1944 and 1945, the company contributed amounts equal to 15% of employee compensation. However, the Commissioner determined that the maximum contributions allowable under the plan’s net profits formula were lower than the amounts actually contributed.

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Procedural History

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The Commissioner of Internal Revenue disallowed a portion of Wooster Rubber Co.'s deductions for contributions to its profit-sharing plan. Wooster Rubber Co. petitioned the Tax Court for a redetermination of the deficiencies. The Tax Court upheld the Commissioner's determination, limiting the deductions to the amounts required by the plan's formula.

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Issue(s)

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Whether the Wooster Rubber Company can deduct the full amount of its contributions to a profit-sharing plan approved under Section 165(a) of the Internal Revenue Code, or whether the deduction is limited to the amount required to be contributed under the terms of the plan, even if the contribution is less than 15% of employee compensation.

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Holding

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No, because the deduction is limited to the amount required by the profit-sharing plan's predetermined formula. The 15% limitation under Section 23(p)(1)(C) sets a maximum deductible amount, but does not allow deducting excess payments beyond what the plan requires.

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Court's Reasoning

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The court reasoned that while Section 23(p)(1)(C) allows a deduction for contributions to a profit-sharing trust up to 15% of employee compensation, this is a maximum limitation, not a minimum requirement. The specific terms of the profit-sharing plan dictate the required contribution. The plan's definition of

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