555, Inc. v. Commissioner, 15 T.C. 671 (1950)

Contributions to an employee pension plan are deductible for accrual-basis taxpayers even if the trust is not fully funded until after the close of the taxable year, provided payment is made within 60 days of the year's end and the plan ultimately complies with all applicable requirements.

Summary

The Tax Court addressed whether 555, Inc. could deduct contributions to its newly established employee pension plan for 1943 and 1944. The Commissioner argued the plan did not meet the requirements of Internal Revenue Code sections 23(p) and 165(a). The court held that the contributions were deductible because the company demonstrated a clear intent to establish a qualifying plan, made irrevocable contributions, and ultimately complied with the relevant statutory requirements within the permitted grace period. The court emphasized the retroactive effect allowed by section 23(p)(1)(E) when payments are made shortly after year-end.

Facts

555, Inc.'s directors appropriated $30,000 on December 13, 1943, as an irrevocable contribution to an employee pension plan. A trust agreement was executed on December 15, 1943. The trust was not funded until February 29, 1944. The company made additional contributions in subsequent years, with payments occurring within 60 days of the close of each taxable year.

Procedural History

The Commissioner disallowed the deductions for the contributions to the pension plan. 555, Inc. petitioned the Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case to determine whether the pension plan met the requirements for deductibility under the Internal Revenue Code.

Issue(s)

Whether 555, Inc. had an employee pension plan and trust in effect during the taxable years 1943 and 1944 that qualified for deductible contributions under sections 23(p) and 165(a) of the Internal Revenue Code, despite the trust not being funded until after the close of the 1943 tax year.

Holding

Yes, because section 23(p)(1)(E) gives retroactive effect to the trust's existence since the contribution was made by an accrual-basis taxpayer within 60 days of the close of the taxable year. Furthermore, the company demonstrated a clear intent to establish a qualifying plan and ultimately complied with the relevant statutory requirements within the permitted grace period provided by the Revenue Act of

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1942.

Court’s Reasoning

The court emphasized that while the trust wasn’t funded until February 1944, section 23(p)(1)(E) allows accrual-basis taxpayers to treat payments made within 60 days of the year’s end as if they were made on the last day of the accrual year. The court noted that the Revenue Act of 1942, as amended, provided a grace period for plans established after September 1, 1942, to comply with certain requirements of section 165(a). The court stated, “[W]hen, as here, there is an irrevocable contribution for the purpose of establishing an employees’ pension plan and trust, which plan and trust are to conform with the regulations governing same (sections 23 (p) and 165 (a)), we believe that a plan is established and a trust is created which meet the requirements of section 23 (p) and section 165 (a) (1) and (2).” The court found that the expressed intent of the company, coupled with the irrevocable contribution, satisfied the initial requirements for deductibility.

Practical Implications

This case clarifies that companies establishing pension plans can deduct contributions even if the formal trust isn’t fully operational by year-end, provided they meet the 60-day payment rule for accrual taxpayers. It highlights the importance of documenting the company’s intent to create a qualified plan and ensuring ultimate compliance with all statutory requirements within any applicable grace periods. This ruling allows businesses flexibility in setting up pension plans without losing the tax benefits associated with them. Later cases would rely on this to determine the validity and timing of deductions related to contributions to similar employee benefit plans.

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