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

A contribution to an employees' pension plan is deductible even if the trust had no res until after the close of the taxable year, provided that the contribution is irrevocable and the trust complies with relevant regulations within a specified grace period.

Summary

555, Inc. sought to deduct contributions made to an employee pension plan for the tax years 1943 and 1944. The Commissioner argued that the plan didn't qualify under sections 23(p) and 165(a) of the Internal Revenue Code. The Tax Court held that the contributions were deductible because the company demonstrated an irrevocable intent to establish a qualifying pension plan and trust, and the trust ultimately complied with the relevant statutory requirements within the grace period provided by law. The court emphasized the retroactive effect provision for accrual-basis taxpayers.

Facts

On December 13, 1943, the petitioner's (555, Inc.) directors appropriated $30,000 as an irrevocable contribution to an employees' pension plan. A trust agreement was executed on December 15, 1943. The trust, however, had no assets (res) until February 29, 1944. The petitioner made contributions to the trust, and the plan was intended to conform with government regulations. The contribution for 1944 was paid on February 23, 1945.

Procedural History

555, Inc. claimed deductions for contributions to an employee pension plan on its tax returns for 1943 and 1944. The Commissioner disallowed these deductions, arguing the plan didn't meet the requirements of sections 23(p) and 165(a) of the Internal Revenue Code. 555, Inc. then petitioned the Tax Court for review.

Issue(s)

Whether the petitioner (555, Inc.) had an employee pension plan and trust in effect during the tax years in question that meets the requirements of sections 23(p) and 165(a) of the Internal Revenue Code, thus entitling it to deduct its contributions.

Holding

Yes, because the petitioner demonstrated an irrevocable intent to establish a qualifying pension plan, and the trust ultimately complied with the relevant statutory requirements within the grace period provided by law.

Court's Reasoning

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The court reasoned that while the trust lacked a res in 1943, section 23(p)(1)(E) provides retroactive effect for accrual-basis taxpayers who make payments within 60 days of the close of the taxable year. Therefore, the trust was deemed to exist as of the close of 1943. The court emphasized the expressed intent in the directors' minutes and the trust agreement, stating the appropriation was irrevocable and the trust was to conform to relevant regulations. Citing *Tavannes Watch Co. v. Commissioner*, the court held that the terms "trust" and "plan" should be interpreted consistently with the purpose of the statute. Since the contribution was irrevocable and intended to establish a plan conforming to sections 23(p) and 165(a), the court found that a qualifying plan and trust were established. The court highlighted that the Revenue Act of 1942 provided a grace period for compliance with subsections (3) through (6) of section 165(a), which was ultimately met in this case. The court stated, "When, 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)."

Practical Implications

This case clarifies the requirements for deducting contributions to employee pension plans, particularly concerning the timing of trust establishment and compliance with statutory requirements. It highlights that an irrevocable commitment to create a qualifying plan, coupled with eventual compliance within the statutory grace period, can support deductibility even if the trust is not fully funded at the close of the tax year. This ruling provides guidance for businesses establishing pension plans, allowing them some flexibility in the initial setup phase, provided they act in good faith and meet the necessary requirements within a reasonable timeframe. This case has been cited in subsequent cases involving similar issues of pension plan deductibility, especially when dealing with accrual-basis taxpayers and the grace period for compliance under the Revenue Act of 1942. Legal practitioners should review this case when advising clients on the establishment and deductibility of contributions to employee pension plans, especially concerning the timing of contributions and the importance of demonstrating an irrevocable commitment to creating a qualifying plan.

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