Buckley v. Commissioner, 29 T.C. 455 (1957)

A lump-sum distribution from an employee pension plan is not considered a capital gain if the distribution is not made on account of the employee's separation from service, particularly when the pension plan was continued by a subsequent employer.

Summary

The case concerns the tax treatment of a lump-sum distribution from a pension plan. Buckley was employed by Scharff-Koken, which later dissolved. Buckley then became employed by International, which took over Scharff-Koken's pension plan. International continued the plan for five years. When International terminated the pension plan, Buckley received a lump-sum distribution. The court had to determine whether this distribution qualified as a capital gain, as a distribution made "on account of the employee's separation from the service." The Tax Court held that because Buckley was still employed by International when the distribution was made, it was not a capital gain, and the distribution was taxed as ordinary income. The court further upheld additions to tax for failure to file a declaration of estimated tax and for substantial underestimation of estimated tax.

Facts

Buckley was employed by Scharff-Koken until its dissolution in June 1946. International subsequently employed Buckley and took over the Scharff-Koken pension plan. International maintained the plan for five years before terminating it. In 1951, Buckley received a lump-sum payment from the pension trust. Buckley did not make any contributions to the pension fund. The Commissioner of Internal Revenue determined that this payment constituted ordinary income, not a capital gain.

Procedural History

The Commissioner determined a tax deficiency based on the classification of the lump-sum distribution as ordinary income. Buckley challenged this determination in the Tax Court. The Tax Court upheld the Commissioner's decision, and also found the taxpayer liable for additional taxes regarding estimated tax declarations. The Tax Court decision is presented as a final ruling.

Issue(s)

1. Whether the lump-sum distribution received by Buckley in 1951 from the Scharff-Koken pension trust, after International continued the plan and then terminated it, qualifies as a capital gain under Section 165(b) of the Internal Revenue Code, or whether it constitutes ordinary income.

2. Whether the taxpayer is liable for an addition to the tax for failure to file a

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declaration of estimated tax for 1951.

3. Whether the taxpayer is liable for an addition to tax for substantial underestimation of estimated tax.

Holding

1. No, the distribution did not qualify as a capital gain because it was not made "on account of the employee's separation from the service" as Buckley continued to be employed by International. The distribution was taxed as ordinary income.

2. Yes, the taxpayer is liable for an addition to the tax for failure to file a declaration of estimated tax.

3. Yes, the taxpayer is liable for an addition to tax for substantial underestimation of estimated tax.

Court's Reasoning

The court applied Section 165(b) of the 1939 Internal Revenue Code, which deals with the taxability of distributions from employee trusts. This section provides capital gains treatment if a distribution is made "on account of the employee's separation from the service." The court distinguished the case from *Mary Miller* because in the present case, the new employer (International) continued the plan for a significant period. The court reasoned that because Buckley's employment continued with International after Scharff-Koken dissolved and throughout International's continuation of the plan, the distribution wasn't

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