***Mississippi River Fuel Corp. v. Commissioner*, 31 T.C. 1256 (1959)**

Employer contributions to an employee savings plan, where the employees' rights are forfeitable, are not deductible under section 23(p)(1)(D) of the 1939 Internal Revenue Code as compensation under a deferred-payment plan.

Summary

The Mississippi River Fuel Corporation (petitioner) established a savings plan for its employees, where both employees and the company contributed to a trust. The plan was not a profit-sharing plan, pension plan or stock bonus plan, and the employees' rights were forfeitable if they withdrew from the plan before its termination or were terminated for cause. The IRS disallowed the deduction of the company's contributions to the savings plan under section 23(p) of the Internal Revenue Code of 1939. The Tax Court agreed, holding that the contributions did not meet the requirements for deductibility because the employees' rights were not nonforfeitable as required by section 23(p)(1)(D). The court emphasized that, under the statute, deductions are a matter of "legislative grace" and are allowable only when there is a clear provision for them in the law. Therefore, the contributions made to the savings plan were not deductible.

Facts

Mississippi River Fuel Corp. (petitioner) established a savings plan for its employees on January 1, 1950. Employees could contribute a fixed amount monthly, and the company would match the contribution. The funds were held in trust. The plan was to run for three years. The plan was not a pension plan or stock bonus plan. Employees' rights to company contributions were forfeitable if they withdrew from the plan or were terminated for cause. The petitioner made contributions to the plan in 1950 and claimed them as deductions on its tax return. The IRS disallowed the deductions, arguing they did not meet the requirements of section 23(p) of the 1939 Internal Revenue Code.

Procedural History

The IRS determined deficiencies in the petitioner's income tax for the years 1949 and 1950 and excess profits tax for 1950. The petitioner challenged these deficiencies. The primary dispute focused on whether the contributions made by the petitioner to the employee savings plan were deductible under Section 23(p) of the 1939 Internal Revenue Code. The Tax Court addressed this issue and ruled in favor of the Commissioner, denying the deduction.

Issue(s)

1. Whether the amounts paid by the petitioner into a savings trust for its employees qualified for deduction from its gross income under section 23 (p) of the Internal Revenue Code (1939).

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2. Whether the savings plan was a profit-sharing plan within the meaning of section 23 (p)(1)(C).
3. Whether the contributions were deductible under section 23(p)(1)(D), considering the forfeitability of employee rights.

Holding

1. No, because the employee savings plan did not qualify for the deduction under section 23(p) of the Internal Revenue Code.
2. No, because the plan was not designed to provide for employee participation in profits, and contributions were not dependent on the existence of profits.
3. No, because the plan did not meet the requirement that employee rights to the contributions be nonforfeitable.

Court's Reasoning

The court first examined the general rule of deductibility under section 23(p). It found that the plan deferred compensation, thereby triggering the application of section 23(p), which imposed limitations on deductions for employer contributions to employee plans. The court determined that the plan was not a pension plan or stock bonus plan. Next, the court rejected the argument that the plan was a profit-sharing plan. The court emphasized that, for a plan to qualify as profit-sharing, it must be geared to profits and dependent on their existence. Neither the plan's language, nor the actions taken by the company met this criteria. The court noted, "the amounts to be contributed by petitioner depended upon the number of eligible employees who chose to become members, and the aggregate of the $5-unit amounts which these employees elected to have withheld from their current compensation."

The court then addressed whether the contributions were deductible under section 23 (p)(1)(D). The court found that the contributions failed this test because the employees' rights to the contributions were forfeitable if the employee withdrew from the plan or was terminated for cause. The court reiterated that, under the statute, a deduction from gross income is a matter of "legislative grace."

Practical Implications

This case highlights the strict interpretation courts give to tax deductions and the importance of carefully structuring employee benefit plans. The decision underscores these practical implications:

- Tax practitioners and businesses must ensure that employee benefit plans are structured to meet all requirements for deductibility as specified by the Internal Revenue Code.
- If a plan involves deferred compensation, the employer's contributions must meet the requirements of section 23(p).
- When drafting employee savings plans, it is important that the plan documents

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and the manner in which the plan is operated, clearly reflect the nature of the plan and its purpose. If the intention is for the plan to qualify as a profit-sharing plan, the plan must be geared to profits and must be dependent on the existence of profits.

- If the employer wants the plan to be eligible for a deduction under section 23(p)(1)(D), the employees' rights in the plan must be nonforfeitable.

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