30 T.C. 933 (1958)

The transfer of property to an employee pension trust, even with a leaseback and option to repurchase, qualifies as a contribution “paid” under IRC § 404(a)(1)(C) if the property’s fair market value exceeds the claimed contribution and the trust immediately benefits.

Summary

The Colorado National Bank of Denver transferred real property to its employee pension trust and immediately leased the property back with an option to repurchase. The IRS disallowed the bank’s claimed deduction for its contribution to the pension trust, arguing it was not a payment as required by the tax code. The Tax Court held that the transfer of the property constituted a contribution “paid” under IRC § 404(a)(1)(C), even with the leaseback and option to repurchase, because the property’s fair market value exceeded the contribution amount, and the trust immediately benefited from the transfer. This decision clarified the definition of “paid” in the context of pension contributions and established that contributions could be made in property.

Facts

The Colorado National Bank of Denver (petitioner) established an employee pension trust. On December 29, 1954, the bank transferred land to the trustees of the pension trust. The bank reserved the improvements on the land, which included its bank building. The pension trust leased the land back to the bank for 20 years at an annual rent of 6% of the property’s value, with monthly payments. The bank also received an option to repurchase the property. The fair market value of the land was at least $700,000, while the trustees accepted the property as a contribution of $389,165.52. The Commissioner of Internal Revenue disallowed part of the bank’s deduction for the contribution, arguing it was not “paid” during the taxable year.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the petitioner’s income tax for 1954, disallowing a portion of the deduction claimed for contributions to the pension trust. The Tax Court reviewed the case based on a stipulated set of facts. The Tax Court ruled in favor of the petitioner.

Issue(s)

Whether the transfer of property to a pension trust, coupled with a leaseback and option to repurchase, constitutes a contribution “paid” under IRC § 404(a)(1)(C), thereby entitling the bank to a tax deduction.

Holding

Yes, the transfer of property constituted a contribution “paid” because the property’s fair market value exceeded the claimed contribution and the trust received immediate and substantial benefits from the transfer, thus entitling the bank to a tax deduction.

Court’s Reasoning

The court examined IRC § 404, which governs deductions for contributions to employee trusts. The court found that the statute allowed deductions for contributions “paid.” The Commissioner argued that the property transfer, with the leaseback and option, was not the equivalent of cash. The court referenced that charitable contributions can be recognized as paid and deductible even if made in property. The court emphasized that the transfer was a present transfer of an asset and bore no resemblance to a promissory note. The court noted that the fair market value of the transferred land, subject to the lease and option, was at least $389,165.52. The court reasoned that the transfer was immediately and irrevocably beneficial to the trust. The court stated that the trust received an asset worth at least $389,165.52, well invested and producing income to the trust. The court found that “The petitioner made a present contribution of property which represented a payment in kind rather than in cash, but a payment, nevertheless within the words and intent of the applicable statutory provisions.” The court distinguished the facts from cases involving promissory notes and emphasized that the trust had the option to sell the land, indicating the transfer was a completed transaction that benefitted the trust.

Practical Implications

This case is significant because it broadens the definition of “paid” contributions to include property transfers, provided the transaction confers an immediate and substantial benefit on the pension trust. It clarifies that a contribution does not necessarily need to be made in cash. This case is relevant for any business making contributions to employee pension trusts, especially if they consider contributing assets other than cash. It provides guidance on structuring property transfers to meet the “paid” requirement, including the valuation of the property and ensuring the trust benefits from the transfer. Businesses should document the fair market value of the property and any benefits conferred on the trust.

