Edward P. Glinski, Jr. v. Commissioner, 17 T.C. 562 (1951)

To qualify for long-term capital gains treatment, a pension distribution must be made to an employee in a single tax year "on account of" the employee's separation from service, and not merely due to the discontinuation of the pension plan.

Summary

The case concerns the tax treatment of distributions from a pension plan. Edward Glinski received an annuity policy from his employer's pension trust, and he later cashed it out. The Commissioner of Internal Revenue determined that the proceeds were taxable as ordinary income, while Glinski argued for long-term capital gains treatment, claiming the distribution was made on account of his separation from service. The Tax Court sided with the Commissioner, finding that the distribution was not made because of the taxpayer's separation from service since he remained an officer of the company, but due to the discontinuation of the pension plan. This decision clarifies the requirements for favorable tax treatment of pension distributions, emphasizing the link between the distribution and the employee's termination of employment.

Facts

Edward P. Glinski, Jr. was an officer and employee of Knitwear, Inc. Knitwear had a pension plan, which Glinski participated in. The pension plan was discontinued and an annuity policy was released to Glinski by the trustees of the pension trust. Glinski received the cash proceeds of the annuity policy in 1952. However, Glinski continued to be an officer of Knitwear until he died. Glinski reported the cash proceeds of the annuity policy as a long-term capital gain. The Commissioner determined the proceeds constituted ordinary income, not capital gains, because he determined the payment wasn't made "on account of the employee's separation from the service."

Procedural History

The Commissioner assessed a deficiency in Glinski's income tax. Glinski challenged the Commissioner's determination in the Tax Court. The Tax Court upheld the Commissioner's decision, finding the distribution was not on account of Glinski's separation from service, but because of the discontinuance of the pension plan. No appeal is recorded in this brief. This case provided a basis for future cases that would further clarify the law in this area.

Issue(s)

1. Whether the distribution of the annuity contract to Edward Glinski was made "on account of" his separation from the service of Knitwear?

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. No, because the distribution of the annuity contract was not made on account of Glinski's separation from the service, since he remained an officer and employee of Knitwear at the time of the distribution.

Court's Reasoning

The court applied Section 165(b) of the Internal Revenue Code of 1939, which addresses the tax treatment of pension distributions. The critical issue was whether the distribution occurred "on account of the employee's separation from the service." The court noted the Commissioner's regulations and revenue rulings, which stated that separation must be a complete termination of the employment relationship. The court found that Glinski did not sever his connection with Knitwear until his death, as he remained an officer. The Court acknowledged that the pension plan was discontinued, but the payment to Glinski happened because the plan was discontinued. This distinction was critical to the court's holding. The court emphasized that the distribution occurred because of the discontinuation of the pension plan rather than Glinski's separation from service. The court gave weight to the factual record, showing that Glinski continued to be an officer and receive compensation from Knitwear. The court deferred to the Commissioner's determination.

Practical Implications

This case is significant for understanding the requirements for favorable tax treatment of pension distributions. It illustrates the importance of a complete severance of employment for long-term capital gains treatment. Tax practitioners should advise clients that a distribution made because of a pension plan's discontinuation, where the employee continues to be employed, is likely to be taxed as ordinary income, rather than capital gains. This case underscores the need for careful planning and documentation to ensure that distributions are timed and structured to meet the statutory requirements. Later cases cited and relied upon this case.

© 2025 SCOTUSreports.com. All rights reserved.