***Lukens Steel Co. v. Commissioner, 52 T. C. 764 (1969)***

A company may accrue and deduct noncancelable contingent liabilities for employee benefits when the liability's existence and amount are fixed by events during the taxable year, even if the timing of payments and specific recipients are uncertain.

**Summary**

Lukens Steel Co. entered into a supplemental unemployment benefit (SUB) plan with the United Steelworkers Union, which included both cash and noncash contributions. The 1962 SUB plan made the noncash liabilities, referred to as "contingent liabilities," noncancelable and payable to a trust for employee benefits. The IRS disallowed deductions for these liabilities, arguing they were contingent on future events. The Tax Court held that Lukens could accrue and deduct these liabilities because their existence and amount were determined by events in the taxable years, and their ultimate payment was reasonably certain.

**Facts**

Lukens Steel Co. and the United Steelworkers Union agreed on a supplemental unemployment benefit (SUB) plan in 1956, which was extended and modified in 1962. The 1962 SUB plan increased benefits and changed the financing method. The plan's total obligation was determined by hours worked by eligible employees, with contributions consisting of cash payments and a noncancelable contingent liability. This contingent liability was to be paid to the SUB Plan Trust when needed for benefits, and any remaining balance upon plan termination was to be used for employee benefits. Lukens accrued these liabilities as business expenses and deducted them in its tax returns for the years in question.

**Procedural History**

The IRS disallowed deductions for the contingent liabilities accrued by Lukens Steel Co. under the 1962 SUB plan. Lukens appealed to the United States Tax Court, which ruled in favor of Lukens, allowing the deductions for the accrued liabilities.

**Issue(s)**

1. Whether Lukens Steel Co. may accrue and deduct the unpaid portion of its obligation to make contributions to the SUB Plan Trust as business expenses under the accrual method of tax accounting.

**Holding**

1. Yes, because the liability's existence and amount were fixed by events occurring during the taxable years, and the ultimate payment of those amounts was reasonably certain in fact, even though the timing of payments and specific recipients were uncertain.

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## Court’s Reasoning

The Tax Court applied the “all events” test for accrual accounting, which requires that all events fixing the liability and its amount occur within the taxable year. The court found that under the 1962 SUB plan, the contingent liabilities were noncancelable and their amounts were determined by events within the taxable years. The court cited *Washington Post Co. v. United States* to support the principle that for group liabilities, the certainty of the liability is more important than the certainty of the timing of payments or the identity of the payees. The court rejected the IRS’s argument that the liabilities were contingent on future events, emphasizing that the contract guaranteed payment for the benefit of employees, regardless of the specific timing or recipients. The court also noted that Lukens reasonably anticipated that these liabilities would be paid within a few years, further supporting the accrual and deduction of these amounts.

## Practical Implications

This decision allows companies to accrue and deduct noncancelable contingent liabilities for employee benefits when the liability’s existence and amount are fixed by events within the taxable year. It impacts how similar employee benefit plans should be analyzed for tax purposes, emphasizing the importance of contractual terms that make liabilities noncancelable. Legal practitioners should ensure that such plans are structured to meet the “all events” test, which could affect the negotiation and drafting of employee benefit agreements. The ruling may encourage companies to establish more comprehensive benefit plans, knowing they can accrue the costs, which could enhance employee relations and morale. Subsequent cases, such as those involving similar group liabilities, have referenced this decision in determining the accrual of expenses.

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