Estate of Johnson v. Commissioner, 56 T. C. 944 (1971)

Employer contributions to annuities by a state university are excludable from the gross estate under Section 2039(c)(3) of the Internal Revenue Code.

Summary

Leslie E. Johnson, an employee of Iowa State University, died owning two annuity contracts funded by both his and his employer's contributions. The estate sought to exclude 80. 11% of the annuities' value, representing the employer's contributions, from the gross estate. The court held that Iowa State University, as a state-owned educational institution, qualified under Section 2039(c)(3) for the exclusion, allowing the estate to exclude the portion of the annuity proceeds attributable to the employer's contributions. This decision was based on the university's status as an educational organization and its exemption from federal income tax under Section 501(a).

Facts

Leslie E. Johnson, employed by Iowa State University of Science and Technology, died on December 20, 1967. At the time of his death, he owned two annuity contracts: one from Teachers Insurance and Annuity Association of America (TIAA) valued at $14,616. 36, and another from College Retirement Equities Fund (CREF) valued at $22,593. 55. Contributions to these annuities were made by both Johnson and Iowa State University, with the university contributing 80. 11% of the total contributions. The estate excluded 80. 11% of the annuities' total value of $37,209. 91 from the gross estate, asserting that this portion was attributable to the employer's contributions.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate's tax return, disallowing the exclusion of the employer's contributions to the annuities. The estate filed a petition with the United States Tax Court, which heard the case and ultimately ruled in favor of the estate, allowing the exclusion under Section 2039(c)(3).

Issue(s)

1. Whether Iowa State University, as a state-owned educational institution, qualifies as an employer under Section 2039(c)(3) of the Internal Revenue Code?

2. Whether the portion of the annuity proceeds attributable to contributions made by Iowa State University can be excluded from the decedent's gross estate?

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, because Iowa State University meets the requirements of Section 2039(c)(3) as an organization described in Section 503(b)(2) and (3) and is exempt from tax under Section 501(a).

2. Yes, because the portion of the annuity proceeds attributable to Iowa State University's contributions is excludable from the decedent's gross estate under Section 2039(c)(3).

Court's Reasoning

The court's decision hinged on the interpretation of Section 2039(c)(3), which allows exclusion of annuity proceeds attributable to contributions by certain qualifying employers. Iowa State University was deemed to qualify under this section because it met the criteria of an educational organization under Section 503(b)(2) and received substantial support from the state under Section 503(b)(3). The court rejected the Commissioner's argument that state universities were not intended to be included under Section 501(a), citing Revenue Rulings and the principle that state-owned universities should be treated similarly to private universities for tax purposes. The court also found that Iowa State University was separately organized and operated, despite being a state entity, and thus qualified for the exclusion. The decision emphasized the policy of treating state and private educational institutions equally in tax matters related to employee benefits.

Practical Implications

This decision clarified that contributions by state universities to employee annuities can be excluded from an employee's gross estate under Section 2039(c)(3). It sets a precedent for similar cases involving state institutions and their employees' retirement benefits, potentially affecting estate planning and tax strategies for employees of state universities. The ruling also reinforces the principle of equal treatment of public and private educational institutions in tax law, which may influence future interpretations of tax-exempt status under Section 501(a). Practitioners should consider this decision when advising clients on estate planning involving annuities funded by state employers, ensuring that such contributions are properly excluded from the gross estate. Subsequent cases may reference Estate of Johnson v. Commissioner when addressing the tax treatment of employer contributions to employee benefits by state entities.

© 2025 SCOTUSreports.com. All rights reserved.