Enright v. Commissioner, 56 T. C. 1261 (1971)

Group-term life insurance premiums paid by a corporation for a director are taxable as compensation for services, not excludable under IRC Section 79 which applies only to employees.

Summary

In Enright v. Commissioner, the U. S. Tax Court ruled that premiums paid by a corporation for group-term life insurance for its director were taxable income. Maurice Enright, both an employee and a director at Gregory Industries, Inc. , received group-term life insurance coverage as a director. The court held that such premiums were not excludable under IRC Section 79, designed for employee benefits, but were taxable under IRC Section 61 as compensation for services. This decision clarified that the tax exclusion for group-term life insurance does not extend to directors, impacting how corporations structure compensation for their board members.

Facts

Maurice Enright was employed by Gregory Industries, Inc. as a vice president and also served on its board of directors. The corporation provided two separate group-term life insurance plans: one for employees, covering Enright in his capacity as vice president, and another for directors, covering him as a director. The premiums for the director’s plan, $629. 75 in 1966 and $680. 75 in 1967, were paid entirely by the corporation. Enright did not report these premiums as income on his tax returns for those years.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Enright’s federal income taxes for 1966 and 1967, asserting that the premiums paid for his director’s insurance should be included in his gross income. Enright petitioned the U. S. Tax Court for a redetermination of the deficiencies. The Tax Court ruled in favor of the Commissioner, holding that the premiums were taxable.

Issue(s)

1. Whether the group-term life insurance premiums paid by Gregory Industries, Inc. for Maurice Enright in his capacity as a director are excludable from his gross income under IRC Section 79.
2. Whether these premiums constitute taxable income to Enright under IRC Section 61.

Holding

1. No, because the premiums were not paid under a plan for employees as required

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by Section 79 and its regulations, but rather under a separate plan for directors.
2. Yes, because the premiums were compensation for services rendered as a director and thus includable in gross income under Section 61.

Court’s Reasoning

The court’s decision hinged on the distinction between employees and directors. Section 79 and its regulations specifically apply to group-term life insurance provided to employees. The court cited regulations stating that a director, in his capacity as such, is not considered an employee, thus the premiums paid for Enright’s director insurance did not qualify for exclusion under Section 79. The court also rejected Enright’s argument that prior administrative exclusions should apply, noting that such exclusions were limited to employees and were superseded by the enactment of Section 79. The premiums were deemed taxable under Section 61 as they constituted compensation for services rendered as a director. The court emphasized that the legislative history of Section 79 focused on protecting families of deceased employees, not directors. The court also referenced cases and commentaries that supported the view that group-term life insurance premiums represent taxable compensation unless specifically excluded by statute.

Practical Implications

This ruling clarifies that group-term life insurance premiums paid for corporate directors are taxable as compensation, affecting how corporations structure director compensation. Corporations must now consider the tax implications when offering such benefits to directors. This decision also underscores the limited scope of IRC Section 79, which only applies to employees, prompting a review of compensation policies to ensure compliance with tax laws. Subsequent cases have followed this precedent, distinguishing between employee and director benefits for tax purposes. Practitioners should advise clients to report such premiums as income and consider alternative, tax-efficient compensation strategies for directors.

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