Gillis v. Commissioner, 63 T. C. 11 (1974)

Contributions to a profit-sharing plan are deductible only if paid within the time prescribed by law for filing the tax return for the year of accrual.

Summary

In Gillis v. Commissioner, the U. S. Tax Court ruled that B-G Equipment Co. could not deduct contributions to its profit-sharing plan for the fiscal years ending March 31, 1967, and March 31, 1968, because the contributions were not paid into the trust until August 5, 1968. This was beyond the deadline set by Section 404(a)(6) of the Internal Revenue Code, which requires payment by the due date of the tax return, including extensions. The court rejected the taxpayers' arguments about constructive receipt and substantial compliance, emphasizing the statutory requirement for actual payment within the specified timeframe.

Facts

B-G Equipment Co. , Inc. established a profit-sharing plan for its employees, accruing contributions on its books at the end of each fiscal year. For the fiscal years ending March 31, 1967, and March 31, 1968, B-G accrued liabilities of $27,396. 55 and $36,044. 15, respectively, but did not pay these amounts into the trust until August 5, 1968. The company's treasurer, Eleanor Gillis, was also a trustee of the plan. B-G used the accrual method of accounting and did not request an extension for filing its tax returns, which were due by June 15 of each year.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in B-G's income tax for the years in question, asserting that the contributions were not deductible because they were not paid within the statutory timeframe. The Gillises, as transferees of B-G's assets, challenged these deficiencies. The case proceeded to the U. S. Tax Court, which heard the arguments and issued its decision on October 2, 1974.

Issue(s)

1. Whether B-G Equipment Co. paid the full amounts accrued to its profit-sharing plan within the time prescribed by Section 404(a)(6) of the Internal Revenue Code for the fiscal years ending March 31, 1967, and March 31, 1968.

Holding

1. No, because the contributions were not paid into the trust until August 5, 1968, which was after the deadline set by Section 404(a)(6) for the fiscal years in question.

Court's Reasoning

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The court applied Section 404(a)(6) of the Internal Revenue Code, which states that for taxpayers on an accrual basis, contributions to a profit-sharing plan are deductible in the year of accrual if paid by the due date of the tax return, including extensions. The court emphasized that the statute requires actual payment, not just accrual on the company's books or notification to employees. The court rejected the taxpayers' arguments of constructive receipt and substantial compliance, citing the clear language of the statute and its purpose to ensure funds are irrevocably set aside for employees. The court also referenced previous cases, such as Hydro Molding Co. and F. & D. Rentals, Inc. , to support its decision that accrual alone is insufficient for a deduction.

Practical Implications

This decision underscores the importance of adhering strictly to the timing requirements for deducting contributions to profit-sharing plans. Taxpayers must ensure that contributions are actually paid into the trust by the due date of the tax return, including any extensions, to claim a deduction. The ruling impacts how businesses manage their deferred compensation plans, requiring them to be more vigilant about the timing of payments to avoid disallowed deductions. Subsequent cases have continued to apply this principle, emphasizing that the statutory requirements must be met to secure the tax benefits of such plans.

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