***Quality Brands, Inc. v. Commissioner, 73 T. C. 193 (1979)***

A profit-sharing plan fails to qualify under section 401(a) if forfeitures are reallocated in a manner that discriminates in favor of officers or highly compensated employees.

**Summary**

Quality Brands, Inc. and Beverage Sales, Inc. established a profit-sharing plan but reallocated forfeitures in a way that favored their officers, resulting in discrimination under section 401(a)(4). The Tax Court held that the plan did not qualify for tax-exempt status because the reallocation formula disproportionately benefited the companies' presidents. Additionally, the court ruled that Beverage Sales, Inc. could not deduct the cost of changing its corporate name as an ordinary business expense, as it was considered a capital expenditure.

**Facts**

Quality Brands, Inc. and Beverage Sales, Inc. , both Louisiana corporations, established a profit-sharing plan in 1968. The plan allowed for employee participation and set up accounts based on compensation credits. Upon employee termination, nonvested account portions were forfeited and reallocated to remaining participants based on their total units in the trust. This method resulted in higher percentages of forfeitures being allocated to the accounts of the companies' presidents, Sammy and George Abraham, compared to other employees. In 1972, Beverage Sales changed its name to reflect a broader product range.

**Procedural History**

The petitioners sought a determination from the IRS that their profit-sharing plan qualified under section 401(a). The IRS requested additional information, which was not provided, leading to the withdrawal of the determination request. The Commissioner later disallowed deductions for contributions to the plan due to alleged discrimination and disallowed Beverage Sales' deduction for name change costs. The case was brought before the Tax Court, which ruled in favor of the Commissioner.

**Issue(s)**

1. Whether the profit-sharing plan established by Quality Brands, Inc. and Beverage Sales, Inc. qualified under section 401(a) of the Internal Revenue Code given the method of reallocating forfeitures.
2. Whether Beverage Sales, Inc. could deduct the cost of changing its corporate name under section 162 of the Internal Revenue Code.

**Holding**

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1. No, because the reallocation of forfeitures in the profit-sharing plan discriminated in favor of officers, violating section 401(a)(4).
2. No, because the cost of changing a corporate name is considered a capital expenditure and not deductible as an ordinary business expense under section 162.

**Court's Reasoning**

The court applied section 401(a)(4), which prohibits discrimination in favor of officers or highly compensated employees in profit-sharing plans. The reallocation formula used by the petitioners, based on total units in the trust, effectively considered length of service and resulted in a consistent pattern of higher allocations to the presidents compared to other employees. The court rejected the petitioners' claim that the allocations were mere bookkeeping errors, as the plan authorized the trustees to allocate nonvested forfeitures. Furthermore, the court found no basis for retroactively correcting the discrimination, as the plan had been operated discriminatorily. For the second issue, the court relied on established precedent that costs associated with changing a corporate name are capital expenditures and thus not deductible under section 162. The court cited United States v. General Bancshares Corp. , 388 F. 2d 184 (8th Cir. 1968), which confirmed that such costs are connected with acquiring a capital asset.

**Practical Implications**

This decision underscores the importance of ensuring that profit-sharing plans are administered in a non-discriminatory manner, particularly in the reallocation of forfeitures. Employers must carefully design and monitor their plans to avoid favoring officers or highly compensated employees, as such discrimination can disqualify the plan from tax-exempt status. The ruling also clarifies that costs related to changing a corporate name are capital expenditures and not deductible as ordinary business expenses, affecting how businesses account for such costs. Subsequent cases and IRS guidance have reinforced these principles, emphasizing the need for clear plan provisions and diligent administration to maintain qualification under section 401(a).

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