***Automated Packaging Systems, Inc. v. Commissioner, 70 T. C. 214 (1978)***

The term ‘year of service’ for vesting purposes in pension plans is defined by completing 1,000 hours of service during any 12-month computation period, not necessarily requiring continuous employment throughout that period.

**Summary**

In this case, the U. S. Tax Court determined that Automated Packaging Systems, Inc. ‘s pension plan did not meet the minimum vesting standards required under the Internal Revenue Code and ERISA. The key issue was the definition of a ‘year of service’ for vesting purposes. The court upheld the validity of Department of Labor regulations defining ‘year of service’ as completing 1,000 hours of service within any 12-month period, rejecting the company’s argument that continuous employment throughout the period was necessary. The court also validated the ‘elapsed time method’ as an alternative to the 1,000-hour standard but found the company’s plan non-compliant with its ‘service spanning rules. ‘ This decision has implications for how pension plans calculate vesting service and the authority of regulatory agencies to interpret statutory language.

**Facts**

Automated Packaging Systems, Inc. sought a declaratory judgment that its pension plan, amended effective January 14, 1977, was qualified under section 401(a) of the Internal Revenue Code. The plan’s vesting service provision calculated service based on the percentage of days worked in a year, not completing 1,000 hours within a 12-month computation period as required by section 411(a)(5)(A). The Commissioner of Internal Revenue argued that the plan did not meet the minimum vesting standards of ERISA and the Internal Revenue Code, relying on regulations from the Department of Labor.

**Procedural History**

The case was brought before the U. S. Tax Court under section 7476 of the Internal Revenue Code for a declaratory judgment on the plan’s qualification. The parties stipulated to the administrative record, and no additional evidence was presented. The Tax Court considered the validity of the Department of Labor’s regulations and the compliance of the petitioner’s plan with the statutory and regulatory requirements.

**Issue(s)**

1. Whether the Department of Labor has authority to promulgate regulations defining ‘year of service’ for vesting purposes under ERISA and the Internal Revenue Code.
2. Whether the petitioner’s pension plan complies with the minimum vesting standards required by section 411(a) of the Internal Revenue Code.

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3. Whether the ‘service spanning rules’ under the ‘elapsed time method’ are valid and consistent with congressional intent.

## Holding

1. Yes, because the Department of Labor’s authority to define ‘year of service’ is explicitly provided by statute and congressional intent.
2. No, because the plan’s method of calculating vesting service does not comply with the statutory requirement of crediting a year of service for completing 1,000 hours within any 12-month period.
3. Yes, because the ‘service spanning rules’ are consistent with the statutory language and congressional intent to provide more liberal vesting standards.

## Court’s Reasoning

The court reasoned that the Department of Labor’s authority to define ‘year of service’ and ‘hours of service’ was explicitly granted by Congress in ERISA and the Internal Revenue Code. The court rejected the petitioner’s argument that continuous employment throughout the 12-month period was required, citing the legislative history and the clear language of section 411(a)(5)(A) that a ‘year of service’ is earned by completing 1,000 hours within any 12-month period. The court also found the ‘service spanning rules’ under the ‘elapsed time method’ to be valid, as they provide a more liberal method of crediting service that aligns with congressional intent to ensure equitable vesting protection. The court emphasized that the plan’s failure to comply with these standards rendered it non-qualified under section 401(a).

## Practical Implications

This decision clarifies that pension plans must credit a ‘year of service’ for vesting purposes whenever an employee completes 1,000 hours of service within any 12-month period, regardless of continuous employment. It also affirms the authority of the Department of Labor to interpret and define statutory terms related to pension plan vesting. Practitioners should ensure that pension plans comply with these standards to avoid disqualification. The decision also supports the use of the ‘elapsed time method’ as a more flexible alternative to the 1,000-hour standard, provided plans adhere to the ‘service spanning rules. ‘ This ruling may impact how employers structure their pension plans and how they calculate vesting service, potentially affecting employee rights and employer administrative practices.

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