Thompson v. Commissioner, 74 T. C. 873 (1980)

The minimum funding standards of section 412 do not apply to plan qualification under section 401(a), and variations in pension contributions or benefits do not constitute discrimination under section 401(a)(4) unless they favor officers, shareholders, or highly compensated employees.

Summary

In Thompson v. Commissioner, the U. S. Tax Court upheld the IRS's determination that a multiemployer pension plan qualified under section 401(a). The petitioner challenged the plan's compliance with minimum funding standards under section 412 and alleged discrimination in contributions and benefits. The court clarified that section 412 does not apply to plan qualification under section 401(a) and that variations in contributions or benefits are not discriminatory under section 401(a)(4) unless they favor officers, shareholders, or highly compensated employees. The decision emphasizes the importance of understanding the specific statutory requirements for pension plan qualification and the narrow scope of the antidiscrimination rule.

Facts

In June 1976, the Central Pension Fund of the International Union of Operating Engineers and Participating Employers requested a determination from the IRS that its amended plan continued to qualify under section 401(a). Petitioner James E. Thompson, Jr. , an interested party, submitted a comment letter challenging the plan's qualification. The letter cited issues with contributions by the city and county of Denver through payroll deductions, an agreement with Adolph Coors Co. allowing employees to elect pension contributions instead of vacation pay, and variations in contributions based on work hours under different collective bargaining agreements.

Procedural History

The IRS issued a favorable determination letter on May 25, 1977, concluding that the plan qualified under section 401(a). Thompson sought a declaratory judgment in the U. S. Tax Court, challenging the IRS's determination. The case was submitted for decision on the administrative record, and the court ruled in favor of the respondents.

Issue(s)

1. Whether the plan fails to meet the minimum funding standards of section 412 because benefits were paid to or on behalf of employees of the city and county of Denver in excess of amounts contributed by those employees or because employees of Adolph Coors Co. not electing contributions may nonetheless receive retirement benefits based in part on the period of employment with that company.

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2. Whether the plan fails to meet the antidiscrimination requirement of section 401(a)(4) because employees whose benefits are based in part on periods of union membership may receive greater retirement benefits than those whose benefits are based largely on periods of work for an employer contributing on their behalf or because, under certain collective bargaining agreements, amounts may be contributed for only a limited number of hours that employees work.

Holding

1. No, because section 412 does not apply to plan qualification under section 401(a) and was not applicable to any completed plan year at the time of the IRS's determination.
2. No, because the variations in contributions or benefits do not constitute discrimination within the meaning of section 401(a)(4) as they do not favor officers, shareholders, or highly compensated employees.

Court's Reasoning

The court reasoned that section 412 establishes minimum funding standards for plan years after a plan qualifies under section 401(a), not for plan qualification itself. The court noted that the effective date provisions of section 412 did not apply to any completed plan year when the IRS made its determination. Regarding the antidiscrimination issue, the court held that variations in contributions or benefits are not discriminatory under section 401(a)(4) unless they favor officers, shareholders, or highly compensated employees. The court emphasized that the petitioner failed to allege or provide facts showing such favoritism. The court's decision was based on the statutory language and relevant regulations, highlighting the specific requirements for plan qualification and the narrow scope of the antidiscrimination rule.

Practical Implications

This decision clarifies that the minimum funding standards of section 412 are not relevant to the IRS's determination of plan qualification under section 401(a). It also narrows the scope of the antidiscrimination rule under section 401(a)(4), requiring that variations in contributions or benefits must favor officers, shareholders, or highly compensated employees to constitute discrimination. Practitioners should carefully analyze the specific statutory requirements when assessing pension plan qualification and ensure that any variations in contributions or benefits do not favor the prohibited groups. This case may impact how pension plans are structured and administered, particularly in multiemployer contexts, and how the IRS evaluates plan qualification.

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