Johnson v. Commissioner, 74 T. C. 1057 (1980)

An individual must pay a 6% excise tax on excess contributions to an IRA, even if no deduction is claimed and the earnings are included in income.

Summary

Bart H. Johnson, Jr. , contributed $1,500 to an IRA in 1975, a year in which he was partially an active participant in a qualified retirement plan. The IRS assessed a 6% excise tax on this contribution as an excess contribution under section 4973 for both 1975 and 1976. The Tax Court upheld this assessment, ruling that the excise tax applied regardless of whether Johnson claimed a deduction or included the IRA's earnings in his income. This decision emphasized that the excise tax on excess IRA contributions is mandatory and not contingent on the taxpayer's actions regarding deductions or income reporting.

Facts

Bart H. Johnson, Jr. , worked for Mobil Oil Corp. until March 14, 1975, participating in their tax-qualified profit-sharing plan. After leaving Mobil, he started working at Williams Bros. Engineering Co. , where he was not covered by their profit-sharing plan until April 1, 1976. On December 22, 1975, Johnson opened an IRA and contributed $1,500 to it. He did not claim a deduction for this contribution on his 1975 or 1976 tax returns and included the IRA's 1976 interest earnings in his 1976 income. The IRS assessed a 6% excise tax on the contribution as an excess contribution for both 1975 and 1976.

Procedural History

The IRS issued a notice of deficiency for the excise tax for the years 1975 and 1976. Johnson contested this deficiency in the U. S. Tax Court. The court reviewed the case and upheld the IRS's determination, ruling that the excise tax applied for both years.

Issue(s)

1. Whether the excise tax under section 4973 applies to Johnson's 1975 IRA contribution for the year 1975 because he did not claim a deduction for it?
2. Whether the excise tax under section 4973 applies to Johnson's 1975 IRA contribution for the year 1976 because he included the IRA's interest earnings in his 1976 income?

Holding

1. Yes, because the excise tax under section 4973 is imposed on excess contributions to an IRA, regardless of whether a deduction is claimed.
2. Yes, because the excise tax under section 4973 applies to excess contributions

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remaining in an IRA, regardless of whether the earnings are included in income.

Court’s Reasoning

The court applied section 4973, which imposes a 6% excise tax on excess contributions to an IRA. Johnson’s contribution of $1,500 in 1975 exceeded the allowable deduction under section 219 because he was an active participant in a qualified retirement plan for part of both 1975 and 1976. The court clarified that the excise tax is mandatory and not contingent on whether a deduction was claimed or the earnings were included in income. The court relied on the statutory language of section 4973 and prior cases like *Orzechowski v. Commissioner* and *Guest v. Commissioner* to support its interpretation. The decision highlighted that the excise tax is designed to discourage excess contributions to IRAs, and its application does not depend on the taxpayer’s subsequent actions regarding deductions or income reporting.

Practical Implications

This decision clarifies that the 6% excise tax under section 4973 is strictly applied to excess IRA contributions, regardless of the taxpayer’s actions concerning deductions or income reporting. Practitioners should advise clients to carefully monitor their contributions to IRAs, especially if they participate in other qualified retirement plans, to avoid incurring the excise tax. The ruling may affect how taxpayers and their advisors plan retirement savings, emphasizing the need for compliance with contribution limits to avoid penalties. Subsequent cases have continued to apply this principle, reinforcing the importance of adhering to IRA contribution rules.

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