***Ralph Gano Miller, a Professional Law Corporation v. Commissioner of Internal Revenue, 76 T. C. 433 (1981)***

A stock bonus plan must distribute benefits entirely in the employer's stock to qualify under IRC section 401(a).

**Summary**

In Ralph Gano Miller, a Professional Law Corporation v. Commissioner, the U. S. Tax Court ruled that a stock bonus plan failed to qualify under IRC section 401(a) because it allowed distributions to non-licensed beneficiaries in forms other than the employer's stock. The plan, adopted by a California professional corporation, intended to provide benefits to licensed and non-licensed employees differently. The court upheld the IRS's position that, under the applicable regulations, the entire distribution from a stock bonus plan must be in the employer's stock, except for fractional shares, to maintain its qualified status. This decision underscores the strict requirements for stock bonus plans to prevent discriminatory distribution practices.

**Facts**

Ralph Gano Miller, a Professional Law Corporation, a California-based law firm, adopted a stock bonus plan on September 27, 1976, which was later amended. The plan intended to provide benefits primarily to its licensed professional employees in the form of the employer's stock. However, the plan also included provisions for non-licensed beneficiaries, allowing their benefits to be distributed in cash or other assets rather than the employer's stock. The firm sought an advance determination from the IRS that the plan met the requirements of IRC section 401(a), but the IRS issued an adverse determination, which was upheld after appeals.

**Procedural History**

The firm initially submitted the plan to the IRS on November 22, 1976, and received a proposed adverse determination on June 14, 1977. After unsuccessful appeals to the IRS Regional Office and National Office, the IRS issued a final adverse determination on May 30, 1978. The firm then filed a petition for declaratory judgment with the U. S. Tax Court on August 16, 1978, challenging the IRS's determination.

**Issue(s)**

1. Whether the Ralph Gano Miller, a Professional Law Corporation Stock Bonus Plan and Trust qualifies as a stock bonus plan under IRC section 401(a) when it allows distribution of benefits to non-licensed beneficiaries in forms other than the employer's stock?

**Holding**

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1. No, because the plan fails to meet the requirements of IRC section 401(a) as interpreted by the applicable Treasury regulations, which require that the entire distribution from a stock bonus plan, except for fractional shares, be in the employer's stock.

**Court's Reasoning**

The court analyzed the statutory language of IRC section 401(a) and the Treasury regulations, specifically section 1. 401-1(b)(1)(iii), which define a stock bonus plan. The court found that the regulation's requirement for benefits to be distributable in the employer's stock was consistent with the statute's intent to prevent discriminatory distribution practices. The court rejected the firm's plan because it allowed distributions to non-licensed beneficiaries in forms other than stock, contravening the regulation's strict requirement. The court also noted that recent congressional amendments to the IRC, effective after the decision, further supported the regulation's interpretation. The court emphasized the importance of the regulation in maintaining the integrity of stock bonus plans and preventing their use as tax avoidance schemes.

**Practical Implications**

This decision reinforces the strict requirement that stock bonus plans must distribute benefits in the employer's stock to maintain their qualified status under IRC section 401(a). Legal practitioners advising clients on employee benefit plans must ensure that stock bonus plans strictly adhere to this rule to avoid disqualification. The decision also highlights the IRS's and courts' commitment to preventing discriminatory practices in employee benefit plans. Subsequent amendments to the IRC have modified these requirements, allowing for cash distribution options in certain cases, but this ruling remains relevant for understanding the historical and ongoing regulatory framework for stock bonus plans. Practitioners should stay informed of these changes to provide accurate advice on plan design and compliance.

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