***Chapman v. Commissioner, 73 T. C. 915 (1980)***

An individual who accrues benefits in a qualified pension plan, even if not vested, is considered an active participant and ineligible for an IRA deduction under IRC §219.

**Summary**

In Chapman v. Commissioner, the Tax Court ruled that Frederick Chapman, who participated in his employer's qualified pension plan during 1976, was not entitled to deduct contributions to an Individual Retirement Account (IRA). The court held that Chapman was an "active participant" in the plan, despite not being vested, due to the potential for double tax benefits. Consequently, his $1,500 IRA contribution was disallowed as a deduction and deemed an excess contribution subject to excise tax. This case clarifies that active participation in a qualified pension plan precludes IRA deductions, even if the individual's rights are forfeitable.

**Facts**

Frederick Chapman was employed by Blue Cross/Blue Shield of Massachusetts from April 26, 1971, to August 31, 1976, and became eligible to participate in the company's pension plan in July 1974. In 1976, he accrued benefits under the plan until his employment ended. Chapman contributed $1,500 to an IRA and claimed a deduction on his 1976 tax return. The IRS disallowed the deduction and imposed an excise tax, asserting that Chapman was an active participant in a qualified pension plan.

**Procedural History**

The case was submitted to the U. S. Tax Court fully stipulated. The court adopted the opinion of Special Trial Judge James M. Gussis, who found for the Commissioner, disallowing Chapman's IRA deduction and upholding the excise tax on the excess contribution.

**Issue(s)**

1. Whether Frederick Chapman, who participated in a qualified pension plan during part of 1976, was an "active participant" under IRC §219(b)(2)(A)(i), thus precluding him from deducting his $1,500 contribution to an IRA.
2. Whether Chapman is liable for an excise tax under IRC §4973(a) for the excess contribution to his IRA.

**Holding**

1. Yes, because Chapman accrued benefits under his employer's qualified pension plan during 1976, making him an active participant and ineligible for an IRA deduction.
2. Yes, because the disallowed IRA contribution constituted an excess contribution

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subject to excise tax under IRC §4973(a).

**Court’s Reasoning**

The court applied the rule from IRC §219(b)(2)(A)(i) that disallows IRA deductions for active participants in qualified pension plans. It emphasized that Chapman’s participation in the Blue Cross/Blue Shield plan, even though his rights were forfeitable, made him an active participant. The court distinguished this case from Foulkes v. Commissioner, noting that Chapman’s potential for reinstatement of benefits if reemployed within the break-in-service period indicated a potential for double tax benefits. The court quoted Orzechowski v. Commissioner to support its interpretation that active participation includes accruing benefits, even if forfeitable. The court also rejected Chapman’s arguments based on the dissent in Orzechowski, as they were not adopted by the Tax Court. The decision was influenced by the policy of preventing double tax benefits, as articulated in the congressional purpose behind the “active participant” limitation.

**Practical Implications**

This decision impacts how tax practitioners should advise clients on IRA contributions when clients participate in qualified pension plans. It clarifies that even non-vested participation in a qualified plan precludes IRA deductions, requiring careful analysis of an individual’s pension plan status. The ruling reinforces the IRS’s position on preventing double tax benefits, affecting retirement planning strategies. Subsequent cases, such as Foulkes, have further refined this area of law, but Chapman remains a key precedent for understanding the scope of the “active participant” rule. Taxpayers and practitioners must consider potential reinstatement rights under pension plans when evaluating IRA deduction eligibility.

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