Jungers Sole Proprietorship v. Commissioner, 78 T. C. 326 (1982)

A repayment agreement tied to a lump-sum distribution rollover does not constitute an impermissible assignment or alienation of plan benefits under IRC § 401(a)(13).

Summary

Francis Jungers rolled over his lump-sum distribution from a qualified retirement plan to an H. R. 10 plan, subject to a repayment agreement in case of early termination of the original plan. The IRS argued this violated IRC § 401(a)(13)'s anti-alienation rule, but the Tax Court disagreed. The court found the agreement did not constitute an impermissible assignment or alienation, as it merely recognized a pre-existing restriction on the distribution. This decision upholds the validity of such arrangements in facilitating the portability of retirement benefits while complying with anti-discrimination rules.

Facts

Francis Jungers retired from Arabian American Oil Co. (Aramco) and received a lump-sum distribution from its qualified retirement plan. As one of the 25 highest-paid participants and due to recent plan amendments, his distribution was subject to early termination rules under IRC § 401(a)(4) and 26 CFR § 1. 401-4(c). To receive the distribution, Jungers had to agree to repay a portion if the plan terminated early. He rolled over the entire distribution, including the restricted portion, into his new H. R. 10 plan, securing the repayment obligation with a subtrust. The IRS revoked the H. R. 10 plan's qualified status, claiming the repayment agreement violated IRC § 401(a)(13)'s anti-assignment and alienation provisions.

Procedural History

The petitioner filed for a declaratory judgment under IRC § 7476(a)(1) to determine if the H. R. 10 plan was qualified. Initially, the IRS determined the plan was qualified but later revoked this determination upon receiving technical advice that the repayment agreement constituted an impermissible assignment or alienation of benefits.

Issue(s)

1. Whether the agreement to repay a portion of the lump-sum distribution in the event of an early termination of the original plan constitutes an impermissible assignment or alienation of benefits under IRC § 401(a)(13).

Holding

1. No, because the agreement merely recognized a pre-existing restriction on the distribution and did not involve an assignment or alienation of benefits under the H. R. 10 plan itself.

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Court’s Reasoning

The court held that the repayment agreement did not violate IRC § 401(a)(13), as it was not an assignment or alienation of benefits under the H. R. 10 plan. The court reasoned that Jungers’ right to the distribution was already restricted by the original plan’s early termination rules, and the H. R. 10 plan merely recognized this restriction. The court emphasized that the purpose of IRC § 401(a)(13) was to ensure benefits are available for retirement, which was not frustrated by the agreement. The court also found the agreement fell within exceptions in the regulations for recovering overpayments and transferring benefits between plans. The court rejected the IRS’s argument that the lack of a title restriction on the rolled-over funds was relevant, focusing instead on the legislative intent to encourage benefit portability.

Practical Implications

This decision clarifies that repayment agreements tied to lump-sum distribution rollovers, when required by the original plan’s anti-discrimination rules, do not violate IRC § 401(a)(13). Practitioners should ensure such agreements clearly recognize the original plan’s restrictions and do not attempt to assign or alienate benefits under the receiving plan itself. This ruling supports the use of such arrangements to facilitate the portability of retirement benefits while maintaining plan qualification. Subsequent cases have relied on this decision when analyzing similar rollover agreements. Taxpayers and practitioners should be aware that this case was decided under the law in effect at the time and that subsequent legislative changes may impact the analysis.

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