Jones v. Commissioner, 82 T. C. 586 (1984)

A taxpayer must include in income the value of a fully vested interest in a qualified profit-sharing plan, even if relinquished as part of a plea bargain.

Summary

In Jones v. Commissioner, the Tax Court ruled that Kermit Jones must include in his income the value of his fully vested interest in his employer's profit-sharing plan, which he relinquished as part of a plea bargain after being terminated for attempted embezzlement. The court found that Jones's endorsement of the check back to his employer constituted actual receipt, and his assignment of the right to the funds was a taxable event under the Internal Revenue Code. This case underscores that income realization occurs when a taxpayer assigns an unconditional right to receive funds, even if the funds are never physically received.

Facts

Kermit Jones was employed by Magna Corp. and participated in their qualified profit-sharing plan, in which he had a fully vested interest. In June 1978, Jones was arrested and terminated for attempting to embezzle goods. During plea bargaining, Jones agreed to relinquish his interest in the profit-sharing plan in exchange for pleading guilty to a lesser charge. On July 28, 1978, Jones endorsed a check from the profit-sharing trust back to Magna without it leaving the hands of Magna's counsel. Jones did not report this amount on his 1978 tax return, leading to a deficiency determination by the Commissioner.

Procedural History

The Commissioner determined a deficiency in Jones's 1978 federal income tax return due to the unreported lump-sum distribution from the profit-sharing plan. Jones petitioned the U. S. Tax Court to contest the deficiency. The Tax Court upheld the Commissioner's determination, ruling that the distribution must be included in Jones's income.

Issue(s)

1. Whether Jones must include in income the value of his fully vested interest in Magna's profit-sharing plan, which he relinquished in conjunction with his plea bargaining arrangement.

Holding

1. Yes, because Jones's endorsement of the check back to Magna constituted actual receipt, and his assignment of his unconditional right to the funds was a taxable event under the Internal Revenue Code.

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Court’s Reasoning

The court reasoned that Jones had an unconditional right to his vested interest in the profit-sharing plan. By endorsing the check back to Magna, Jones actually received the funds, requiring their inclusion in income under sections 402(a) and 451 of the Internal Revenue Code. The court also applied the principle from Helvering v. Horst that income is realized when a taxpayer assigns the right to receive income, even if it is never physically received. The court distinguished cases cited by Jones, noting that the lump-sum distribution was not repaid to the original distributor, and Jones did not qualify for any exclusion or deduction provisions that would offset the income realization.

Practical Implications

This decision clarifies that the relinquishment of a vested interest in a qualified plan as part of a plea bargain is a taxable event. Legal practitioners should advise clients that such actions will likely result in taxable income, even if the funds are never physically received. Businesses should be aware that allowing employees to forfeit vested benefits in exchange for leniency in criminal proceedings may have tax implications for the employee. Subsequent cases have followed this ruling, reinforcing the principle that the assignment of income rights is taxable.

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