Calfee, Halter & Griswold v. Commissioner, 88 T. C. 641 (1987)

ERISA's fiduciary standards, including the reversion provisions under section 403(c)(2), apply to the qualification of retirement plans under the Internal Revenue Code section 401(a).

Summary

The case determined that the fiduciary standards of ERISA, specifically the reversion provisions in section 403(c)(2), should be considered in assessing the qualification of retirement plans under IRC section 401(a). The Commissioner argued that these provisions violated the exclusive benefit rule, but the court disagreed, finding that since ERISA's titles I and II were developed in concert, the standards of both titles should be applied cohesively. This ruling emphasizes the integrated nature of ERISA and its impact on plan qualification for federal tax purposes, ensuring that plans compliant with ERISA's fiduciary standards are not disqualified under tax law.

Facts

Several employers established pension and profit-sharing plans, each containing a provision allowing the return of employer contributions under certain conditions. These conditions mirrored the language of ERISA section 403(c)(2), which permits reversions due to mistakes of fact, plan disqualification, or disallowed deductions. The Commissioner issued adverse determination letters, asserting that these provisions violated IRC section 401(a)(2)'s exclusive benefit rule. The employers sought a declaratory judgment that their plans remained qualified under IRC section 401(a).

Procedural History

The employers requested determination letters from the IRS to confirm the continued qualification of their amended plans under IRC section 401(a). The Commissioner issued adverse determination letters, claiming the plans violated the exclusive benefit rule. The employers then sought declaratory judgment from the Tax Court, which consolidated the cases and ultimately ruled in favor of the employers.

Issue(s)

1. Whether a plan provision essentially equivalent to ERISA section 403(c)(2) violates the exclusive benefit rule of IRC section 401(a)(2).

2. Whether such a provision must limit the possibility of reversion to the initial qualification of a plan or its continuing qualification following amendment.

Holding

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1. No, because the court found that the ERISA section 403(c)(2) standards apply in determining the qualification of a plan under IRC section 401(a), and thus a provision mirroring this section does not violate the exclusive benefit rule.

2. No, because the statute and its legislative history do not support limiting the application of ERISA section 403(c)(2) to initial qualification or post-amendment qualification scenarios.

Court's Reasoning

The court emphasized the coordinated development of ERISA's titles I and II, designed to create a unified set of rules governing retirement plans. The court rejected the Commissioner's argument that ERISA's fiduciary standards should not influence plan qualification under the tax code, highlighting that ignoring these standards would defeat the legislative intent of ERISA. The court also noted that the reversion provisions in question were narrowly defined and not broader than ERISA's statutory language, thus not violating the exclusive benefit rule. The court further dismissed the Commissioner's alternative argument, finding no statutory or legislative basis to limit the application of ERISA section 403(c)(2) to initial or post-amendment qualification.

Practical Implications

This decision has significant implications for the drafting and administration of retirement plans. It confirms that plans adhering to ERISA's fiduciary standards, including reversion provisions, will not be disqualified for federal tax purposes, ensuring consistency between labor and tax law. Practitioners must consider both ERISA and IRC standards when designing plans to ensure compliance and qualification. The ruling also underscores the importance of understanding the integrated nature of ERISA, affecting how future cases involving plan qualification and fiduciary responsibilities are approached. This case has been cited in subsequent decisions, reinforcing the application of ERISA standards in tax qualification assessments.

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