Lambos v. Commissioner, 91 T. C. 257 (1988)

Leases between a profit-sharing plan and disqualified persons are prohibited transactions unless the leased properties qualify as geographically dispersed employer real property under ERISA.

Summary

In Lambos v. Commissioner, the Tax Court ruled that leases between a profit-sharing plan and the plan's disqualified persons (Anton and Olga Lambos) were prohibited transactions under section 4975 of the Internal Revenue Code because the leased properties did not meet ERISA's geographic dispersion requirement for qualifying employer real property. The Lamboses leased properties from the plan, which they argued were geographically dispersed and adaptable for multiple uses. However, the court found the properties were located too closely together in Stark County, Ohio, to satisfy the geographic dispersion requirement. This decision underscores the strict interpretation of ERISA's geographic dispersion standard for exempting transactions from being classified as prohibited.

Facts

Anton Lambos owned Kendall House, Inc. , which maintained a profit-sharing plan. The plan owned three properties in Canton, Ohio, each leased to a Kentucky Fried Chicken franchise. Anton and Olga Lambos, as disqualified persons, leased two of these properties from the plan. Anton owned 94-100% of Kendall House stock during the relevant years, and Olga was his spouse. The IRS determined that these lease transactions were prohibited under section 4975, imposing excise taxes on the Lamboses as disqualified persons. The Lamboses argued the leases were exempt under ERISA because the properties were qualifying employer real property.

Procedural History

The IRS issued statutory notices of deficiency for excise taxes under section 4975 to Anton and Olga Lambos for the years 1976-1981. The Lamboses petitioned the Tax Court, challenging the determination. The court reviewed the case, focusing on whether the leased properties qualified as employer real property under ERISA.

Issue(s)

1. Whether the leased properties were qualifying employer real property under section 407(d)(4) of ERISA, which requires geographic dispersion and adaptability for multiple uses.
2. Whether the amount involved for the excise tax should be calculated based on the aggregate rental payments or by considering each lease transaction as a separate prohibited transaction for each year within the taxable period.

Holding

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1. No, because the leased properties were not geographically dispersed as required by section 407(d)(4)(A) of ERISA.
2. Yes, because the IRS's method of calculating the amount involved by considering each lease transaction as a separate prohibited transaction each year was consistent with the statute and regulations.

Court's Reasoning

The court interpreted ERISA's requirement for qualifying employer real property, emphasizing the need for geographic dispersion to protect plan investments from localized economic downturns. The court found that the properties leased by the Lamboses, despite being in different neighborhoods within Stark County, were not sufficiently dispersed to meet this standard. The court also noted that the properties' economic characteristics were too similar to qualify as geographically dispersed. Regarding the amount involved for the excise tax, the court upheld the IRS's method of calculating the tax annually, citing consistency with the statute and regulations governing self-dealing in private foundations.

Practical Implications

This decision clarifies the strict interpretation of ERISA's geographic dispersion requirement for qualifying employer real property. Practitioners advising clients on ERISA plans must ensure that leased properties are genuinely dispersed across different economic regions to avoid prohibited transaction status. The ruling also affirms the IRS's method of calculating excise taxes on prohibited transactions, which could impact how similar cases are handled. This case has been cited in subsequent rulings involving the classification of employer real property and the calculation of excise taxes under section 4975.

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