## *Matthews-McCracken-Rutland Corp. v. Commissioner, 88 T. C. 1474 (1987)*

The court held that disqualified persons remain liable for excise taxes on prohibited transactions under ERISA until such transactions are corrected, regardless of changes in their legal status post-transaction.

### Summary

In Matthews-McCracken-Rutland Corp. v. Commissioner, the Tax Court addressed the liability of disqualified persons for excise taxes on prohibited transactions under ERISA. The case involved the sale of property by individual petitioners to an employee stock ownership plan (ESOP) and its subsequent lease to the corporate petitioner. The court determined that the transactions were prohibited under ERISA, and the petitioners remained liable for excise taxes until the transactions were corrected. The ruling emphasized the per se prohibition of certain transactions and the continued liability of disqualified persons despite changes in their legal status. The court also clarified the calculation of excise taxes and the applicability of the statute of limitations.

### Facts

In September 1972, Robert McCracken acquired a controlling interest in Matthews-McCracken-Rutland Corp. (MMR), which provided engineering services. In December 1976, the individual petitioners sold a property to MMR's ESOP for $430,000, which was then leased back to MMR. The plan paid $100,000 in cash, issued a promissory note for $189,363. 64, and assumed a mortgage of $140,636. 36. The sale and lease were later identified as potential prohibited transactions under ERISA. In 1978, the petitioners sought an exemption from the Department of Labor, which was denied in 1980. The sale was rescinded in June 1980, with additional compensation paid to the plan in December 1982.

### Procedural History

The Commissioner determined deficiencies in the petitioners' Federal excise taxes for the years 1976 through 1981. The petitioners challenged these determinations in the Tax Court. The Commissioner conceded that one petitioner was not a disqualified person and that the mortgage assumption was not a prohibited transaction. The Tax Court upheld the Commissioner's determinations regarding the prohibited transactions and the applicability of the 6-year statute of limitations.

### Issue(s)

1. Whether the petitioners were disqualified persons under section 4975(e)(2) of the Internal Revenue Code?
2. Whether the sale of property to the ESOP and its subsequent lease to MMR constituted prohibited transactions under section 4975(c)?
3. Whether the Commissioner's calculations of the excise taxes owed by the

 

petitioners were proper and accurate?
4. Whether the Commissioner was barred by the statute of limitations from assessing the deficiencies in Federal excise taxes?
5. Whether section 4975 imposes a penalty referred to in section 6601(e)(3) so as to delay the accrual of interest on any deficiency?

## Holding

1. Yes, because all petitioners, except one, were disqualified persons under section 4975(e)(2) at the time of the transactions and remained liable until correction.
2. Yes, because the sale and lease were prohibited transactions under section 4975(c) and did not qualify for an exemption under section 4975(d)(13).
3. Yes, because the Commissioner's calculations of the excise taxes were proper and consistent with the court's previous rulings.
4. No, because the transactions were not adequately disclosed on the Form 5500, triggering the 6-year statute of limitations.
5. The court declined to rule on this issue due to lack of jurisdiction over the accrual of interest on deficiencies.

## Court's Reasoning

The court applied section 4975 of the Internal Revenue Code, which imposes excise taxes on disqualified persons for engaging in prohibited transactions with an ESOP. The court cited M & R Investment Co. v. Fitzsimmons, stating that once a disqualified person engages in a prohibited transaction, they remain liable until correction. The court rejected the petitioners' arguments of good faith and plan benefit, emphasizing ERISA's per se prohibition on certain transactions. The court also found that the transactions did not qualify for an exemption under section 4975(d)(13) due to the concentrated investment in the property. The court upheld the Commissioner's calculation method and found the transactions not adequately disclosed on the Form 5500, triggering the 6-year statute of limitations. The court declined to rule on the penalty issue due to jurisdictional limitations.

## Practical Implications

This decision reinforces the strict liability for excise taxes on prohibited transactions under ERISA, emphasizing that disqualified persons remain liable until transactions are corrected. Legal practitioners should advise clients on the importance of compliance with ERISA's prohibited transaction rules and the necessity of timely correction. The ruling also highlights the importance of accurate and complete disclosure on tax returns to avoid triggering extended statute of limitations periods. Businesses should carefully review transactions involving ESOPs to ensure they do not inadvertently engage in prohibited transactions. Subsequent cases, such as Lambos v. Commissioner, have applied similar reasoning regarding the calculation of excise taxes and the application of the statute of limitations.