D. J. Lee, M. D. , Inc. v. Commissioner, 92 T. C. 291 (1989)

An employer's contribution to a pension plan is not considered timely unless the funds are irrevocably paid to the plan before the statutory deadline.

Summary

In D. J. Lee, M. D. , Inc. v. Commissioner, the Tax Court ruled that employer contributions to pension plans must be irrevocably paid into the plan's account before the statutory deadline to be considered timely under IRC § 412. The case involved a medical corporation that segregated funds in a separate checking account before the deadline but did not transfer the funds to the pension plans until after the deadline. The court held that merely segregating funds does not constitute a timely contribution, and thus, the employer was subject to excise tax under IRC § 4971(a) for the accumulated funding deficiencies in its plans. This decision emphasizes the importance of actual payment to meet minimum funding standards.

Facts

D. J. Lee, M. D. , Inc. maintained a defined benefit pension plan and a money purchase pension plan. For the plan year ending September 30, 1982, the company needed to contribute $69,393 to the defined benefit plan and $11,680 to the money purchase plan. Before the statutory deadline of June 15, 1983, the company established a separate checking account and deposited sufficient funds to cover the contributions. However, the actual contributions to the plans were not made until July 15, 1983, after the deadline. The company argued that the segregation of funds in the separate account should be considered a timely contribution.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the company's Federal excise tax under IRC § 4971(a) due to the accumulated funding deficiencies in both pension plans. The company petitioned the Tax Court to contest these determinations. The court consolidated the cases related to the two pension plans and ultimately ruled in favor of the Commissioner.

Issue(s)

1. Whether the employer's segregation of funds in a separate checking account before the statutory deadline constituted a timely contribution to the pension plans under IRC § 412.
2. Whether the employer was subject to excise tax under IRC § 4971(a) for the accumulated funding deficiencies in its pension plans.

Holding

1. No, because merely segregating funds in a separate account does not constitute

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an irrevocable payment to the pension plan as required by IRC § 412.
2. Yes, because the employer's failure to make timely contributions resulted in accumulated funding deficiencies, triggering the excise tax under IRC § 4971(a).

Court's Reasoning

The court applied an objective outlay-of-assets test to determine whether the employer's contributions were timely. The court reasoned that for contributions to be considered timely, they must be irrevocably paid to the plan before the statutory deadline. The company's segregation of funds in a separate checking account did not meet this test because the company retained control over the funds and could use them for any purpose until the actual transfer to the pension plans. The court emphasized that the legislative intent behind IRC § 412 is to ensure that pension plans are adequately funded to meet their obligations to employees. The court also noted that the excise tax under IRC § 4971(a) is automatic and does not distinguish between intentional and unintentional funding deficiencies. There were no dissenting opinions.

Practical Implications

This decision underscores the importance of making actual, irrevocable payments to pension plans by the statutory deadline to avoid excise taxes for funding deficiencies. Employers must ensure that contributions are made directly to the plan's account and not merely segregated in a separate account. This ruling impacts how employers manage their pension funding obligations and may lead to more stringent internal controls to ensure timely contributions. Subsequent cases have applied this ruling to similar situations, reinforcing the requirement for irrevocable payment. This decision also highlights the need for employers to carefully review their pension funding practices and consult with legal and financial advisors to avoid similar issues.

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