

## ***Buzzetta Construction Corp. v. Commissioner, 92 T. C. 641 (1989)***

Excess contributions to a profit-sharing plan beyond statutory limits can lead to retroactive disqualification of the plan, even if the errors were inadvertent and not discriminatory.

### **Summary**

Buzzetta Construction Corp. made excess contributions to its profit-sharing plan in fiscal years 1979 and 1980, exceeding the limits set by IRC section 415(c)(1). The IRS discovered this during an audit in 1982 and offered a chance to correct the issue by establishing a suspense account and filing amended returns. The company failed to comply fully, leading to retroactive revocation of the plan's qualified status. The Tax Court upheld this decision, ruling that the excess contributions were a material change in facts justifying disqualification, as they represented a significant breach of the statutory limits on contributions, despite being inadvertent.

### **Facts**

Buzzetta Construction Corp. , a family-owned business, established a profit-sharing plan in 1977. For fiscal years 1979 and 1980, the company's plan administrator inadvertently calculated contributions at 25% of each employee's compensation, resulting in contributions exceeding the statutory limits under IRC section 415(c)(1). The excess contributions amounted to \$80,490 in 1979 and \$6,715 in 1980. In 1982, the IRS discovered this during an audit and offered the company a chance to correct the issue by establishing a suspense account and having the affected employees file amended returns. The company created the suspense account but failed to amend the plan formally and did not file the required amended returns.

### **Procedural History**

The IRS issued a final adverse determination letter in 1983, retroactively revoking the plan's qualified status effective from the fiscal year beginning April 1, 1978. Buzzetta Construction Corp. and related parties petitioned the U. S. Tax Court, challenging the retroactive revocation. The Tax Court upheld the IRS's decision to disqualify the plan retroactively.

### **Issue(s)**

1. Whether the IRS abused its discretion by disqualifying the profit-sharing plan for years in which contributions exceeded the limitations of IRC section 415(c)(1).
2. Whether the IRS abused its discretion in revoking the favorable determination letter previously issued to the corporation.

### **Holding**

1. No, because the excess contributions were a material change in the facts on

which the plan's qualified status was based, and the IRS did not abuse its discretion in disqualifying the plan.

2. No, because the excess contributions were a material change in the facts justifying retroactive revocation of the plan's favorable ruling.

### **Court's Reasoning**

The Tax Court applied IRC section 415, which sets limits on contributions to qualified plans. The court found that the excess contributions were a clear violation of these limits, representing a material change in the facts upon which the plan's qualified status was based. The court emphasized that the statutory limits are central to the tax benefits provided to qualified plans, and any violation, even if inadvertent, could not be overlooked. The court reviewed the legislative history of IRC section 415, noting Congress's intent to balance the benefits of retirement plans against potential abuse of tax-favored treatment. The court also considered the IRS's offer of corrective measures, which the company failed to fully implement, concluding that the IRS did not abuse its discretion in disqualifying the plan retroactively. The court noted that the excess contributions were significant and occurred in the first two years of contributions to the plan, reinforcing the materiality of the error.

### **Practical Implications**

This decision underscores the importance of adhering strictly to statutory limits on contributions to qualified retirement plans. Plan administrators must ensure accurate calculations and timely compliance with IRS regulations to avoid disqualification. The ruling highlights that even inadvertent errors can lead to retroactive disqualification if they result in significant overfunding. Legal practitioners advising clients on retirement plans should emphasize the necessity of establishing robust compliance systems and promptly addressing any errors discovered during audits. This case has influenced subsequent cases dealing with plan disqualification, reinforcing the principle that material breaches of statutory limits cannot be overlooked, even if the errors were unintentional. Businesses should be aware of the potential tax consequences of plan disqualification, including the loss of deductions and the immediate taxation of contributions to employees.