Zimmerman v. Commissioner, 92 T. C. 123 (1989)

Premature distributions from an Individual Retirement Account (IRA) are taxable in the year received unless rolled over within 60 days.

Summary

In Zimmerman v. Commissioner, the Tax Court upheld the IRS's determination that the taxpayer failed to report income from U. S. Steel Corp. and did not fully report premature IRA distributions for 1984. The court found that the taxpayer could not prove he included $53 from U. S. Steel in his income, nor that he rolled over IRA distributions within the 60-day period required to avoid taxation. The key principle established is that IRA distributions are taxable in the year received unless rolled over into another IRA within 60 days, emphasizing the strict interpretation of tax statutes and the burden of proof on the taxpayer.

Facts

The taxpayer, Zimmerman, received $53 from U. S. Steel Corp. and premature distributions from his IRA totaling $7,546 during 1984. He reported only $9,765. 80 in IRA distributions on his tax return, and claimed the distributions were not taxable until the 60-day rollover period expired in 1985. The IRS determined a deficiency, asserting that the full amount of the IRA distributions should have been reported in 1984, and that the $53 from U. S. Steel was not reported.

Procedural History

The IRS issued a notice of deficiency for the tax year 1984. Zimmerman petitioned the Tax Court, which assigned the case to a Special Trial Judge. The Special Trial Judge's opinion was adopted by the full Tax Court, resulting in a decision for the Commissioner.

Issue(s)

1. Whether the taxpayer failed to include $53 received from U. S. Steel Corp. in gross income for 1984?
2. Whether the taxpayer failed to report the entire amount of premature distributions received from an IRA in 1984?

Holding

1. Yes, because the taxpayer could not prove that the $53 was included in his reported income.
2. Yes, because the taxpayer did not roll over the IRA distributions within 60 days, thus the distributions were taxable in 1984.

Court's Reasoning

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The court applied the legal rule that premature IRA distributions are taxable in the year received unless rolled over within 60 days, as per Section 408(d)(1) and (3) of the Internal Revenue Code. The taxpayer bore the burden of proof to show that the IRS erred in its determination, as established in Welch v. Helvering. The court found that the taxpayer failed to provide evidence that the $53 from U. S. Steel was included in his reported income or that the IRA distributions were rolled over within the statutory period. The court emphasized the strict interpretation of the tax statutes, noting that the exception for rollovers only applies if the distribution is actually paid into another account within 60 days. The court's decision was influenced by the policy of ensuring timely tax collection and the clarity of the statutory language.

Practical Implications

This decision clarifies that taxpayers must report premature IRA distributions in the year received unless they complete a rollover within 60 days. It underscores the importance of maintaining accurate records and the burden of proof on taxpayers to substantiate their claims. Practitioners should advise clients to carefully document any rollovers and to report all income accurately. This case has been cited in subsequent decisions to reinforce the rule on the taxability of IRA distributions, affecting how similar cases are analyzed and emphasizing the strict enforcement of tax deadlines.

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