William Wood and Lois Wood v. Commissioner of Internal Revenue, 93 T. C. 114, 1989 U. S. Tax Ct. LEXIS 110, 93 T. C. No. 12, 11 Employee Benefits Cas. (BNA) 1401 (U. S. Tax Court, July 31, 1989)

A taxpayer's timely IRA rollover is not invalidated by a trustee's bookkeeping error if the taxpayer's intent and actions were to complete the rollover within the statutory period.

Summary

William Wood received a lump-sum distribution from his employer's profit-sharing plan and attempted to roll it over into an IRA within the 60-day statutory period. Due to a bookkeeping error by the IRA trustee, Merrill Lynch, the stock portion of the distribution was initially recorded as deposited into a non-IRA account. The Tax Court held that the substance of the transaction controls over the bookkeeping error, and thus, the entire distribution was considered timely rolled over into the IRA. This ruling emphasizes that a taxpayer's intent and actions to complete a timely rollover are paramount, even if the financial institution errs in recording the transaction.

Facts

William Wood retired from Sears, Roebuck & Co. in 1983 and received a lump-sum distribution of $79,516. 60 from the company's profit-sharing plan, consisting of cash and Sears stock. He intended to roll over this distribution into an IRA within the 60-day period required by IRC sec. 402(a)(5)(C). Wood established an IRA with Merrill Lynch, delivering the cash and stock to the account executive with instructions to deposit them into the IRA. The cash portion was correctly transferred, but due to a bookkeeping error, the stock was initially recorded in Wood's non-IRA Ready-Asset account. The error was corrected by Merrill Lynch four months after the 60-day period expired.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Wood's 1983 federal income tax, asserting that the entire lump-sum distribution should be included in his income because the stock was not timely rolled over into the IRA. Wood petitioned the U. S. Tax Court, which heard the case and ultimately ruled in favor of Wood, finding that the entire distribution was timely rolled over despite the bookkeeping error.

Issue(s)

1. Whether the lump-sum distribution received by Wood in 1983 is includable in his gross income for that year due to the IRA trustee's bookkeeping error.

Holding

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1. No, because the substance of the transaction, where Wood transferred both cash and stock to the IRA trustee within the 60-day period, controls over the trustee's bookkeeping error.

Court's Reasoning

The Tax Court emphasized that bookkeeping entries are not conclusive and that the decision must rest on the actual facts of the transaction. The court found that Wood had taken all necessary steps to roll over the entire distribution into the IRA within the statutory period, and Merrill Lynch's error did not alter the substance of the transaction. The court referenced the case of *Doyle v. Mitchell Brothers Co.* , stating that bookkeeping entries are merely evidential and not indispensable or conclusive. The court also noted that there was no indication in the statute, legislative history, or case law that Congress intended to deny rollover benefits due to a financial institution's mistake. The court rejected the Commissioner's argument that Wood should have noticed the error on monthly statements, as such realization would not have changed the outcome given the expiration of the 60-day period.

Practical Implications

This decision underscores the importance of the taxpayer's intent and actions in effectuating a timely IRA rollover, even when a financial institution errs in its records. Practitioners should advise clients to document their intent and actions thoroughly when rolling over distributions. The ruling may encourage financial institutions to improve their record-keeping processes to avoid similar errors. For similar cases, courts will likely focus on the substance of the transaction rather than the accuracy of the records. This case has been cited in subsequent rulings to support the principle that a taxpayer's timely actions to roll over funds should not be thwarted by administrative errors beyond their control.

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