Dallas C. Wood v. Commissioner, T. C. Memo 1990-272

Contributions of property to a defined benefit pension plan to satisfy funding obligations are not prohibited transactions under section 4975 of the Internal Revenue Code.

Summary

In Dallas C. Wood v. Commissioner, the Tax Court addressed whether contributing property to a defined benefit pension plan to meet funding obligations constitutes a prohibited transaction under IRC section 4975. Petitioner Dallas C. Wood, a self-employed real estate broker, contributed promissory notes to his pension plan to satisfy its funding requirements. The court held that such contributions are not prohibited transactions, emphasizing that the statute does not differentiate between voluntary and required contributions. This decision underscores the permissibility of in-kind contributions to pension plans and clarifies the application of section 4975, impacting how employers fund pension plans without triggering excise taxes.

Facts

Dallas C. Wood, a self-employed real estate broker, sold his residence in 1983 and received a $60,000 deed of trust note. In 1984, he purchased two additional promissory notes from property sales. On October 16, 1984, Wood established the Dallas C. Wood Defined Benefit Plan, serving as the sole participant, administrator, and trustee. The plan's funding requirements were calculated using the aggregate level cost method, resulting in a required contribution of $114,000 for 1984. Wood contributed the three promissory notes, with a total fair market value of $94,430, to the plan to satisfy this obligation. He claimed a deduction of $114,000 on his 1984 tax return, the combined face value of the notes.

Procedural History

The Commissioner determined that Wood's contributions of the promissory notes constituted prohibited transactions under IRC section 4975, resulting in excise taxes for the years 1984, 1985, and 1986. Wood petitioned the Tax Court for relief. The court heard the case and issued a memorandum decision, T. C. Memo 1990-272, ruling in favor of Wood and against the imposition of excise taxes.

Issue(s)

1. Whether the contribution of property to a defined benefit pension plan in order to satisfy the employer's funding obligation is a prohibited transaction under IRC section 4975(c)(1)(A).

Holding

1. No, because the court found that section 4975 does not treat contributions of

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property to satisfy funding obligations as prohibited transactions. The court emphasized that the statute's language does not support a distinction between voluntary and required contributions, and that contributions of property to pension plans are permissible under the law.

Court's Reasoning

The court analyzed the statutory framework and legislative history of section 4975, concluding that Congress did not intend to prohibit contributions of property to satisfy funding obligations. The court cited prior cases, such as Colorado National Bank of Denver v. Commissioner, which allowed property contributions to pension trusts. It also applied principles of statutory construction, emphasizing that all parts of a statute must be read together and given effect. The court rejected the Commissioner's argument that contributions to satisfy funding obligations should be treated differently than voluntary contributions, as the statute did not make such a distinction. The court also noted that the Department of Labor's interpretation of parallel ERISA provisions was not controlling in this case. The decision emphasized that if Congress had intended to change the law regarding property contributions to pension plans, it would have done so explicitly.

Practical Implications

This decision clarifies that employers can contribute property to defined benefit pension plans to meet funding obligations without fear of triggering excise taxes under section 4975. It reaffirms the permissibility of in-kind contributions, allowing greater flexibility in funding pension plans. Legal practitioners should advise clients on the proper valuation and documentation of such contributions to avoid issues related to overvaluation. The ruling also impacts how similar cases are analyzed, focusing on the nature of the contribution rather than the obligation it satisfies. Businesses may benefit from this decision by using non-cash assets to fund pension plans, potentially reducing cash flow demands. Subsequent cases have cited this ruling to support the use of property contributions in pension funding, reinforcing its practical significance.

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