Guilzon v. Commissioner, 97 T. C. 237 (1991)

Lump-sum payments from the Civil Service Retirement System (CSRS) are taxable under Section 72(e) of the Internal Revenue Code.

Summary

Edward J. Guilzon received a lump-sum payment from the Civil Service Retirement System (CSRS) upon retirement, which he did not report as income on his tax return. The issue was whether this payment was taxable under Section 72(e) of the Internal Revenue Code. The Tax Court held that the lump-sum payment was indeed taxable, reasoning that it was received from a plan described in Section 401(a) and under an annuity contract, thus falling within the ambit of Section 72(e). The court rejected arguments that the CSRS was not a qualified plan and that the payment was not made under an annuity contract, emphasizing the interrelated nature of the CSRS contributions and benefits.

Facts

Edward J. Guilzon retired from the U. S. Army Corps of Engineers after over 30 years of service. He participated in the Civil Service Retirement System (CSRS) and made mandatory after-tax contributions totaling $36,820. 35. Upon retirement, he elected to receive a lump-sum payment of $36,820. 35 and an annuity of $18,870. 93. Guilzon did not report the lump-sum payment as income on his 1987 tax return, claiming it was merely a refund of previously taxed contributions. The IRS determined a deficiency, asserting that a portion of the lump-sum payment was taxable.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Guilzon’s federal income tax for 1987. Guilzon and his wife, Carolyn J. Guilzon, petitioned the U. S. Tax Court for a redetermination of the deficiency. The case was submitted fully stipulated, and the Tax Court upheld the Commissioner’s determination that the lump-sum payment was taxable under Section 72(e).

Issue(s)

1. Whether a lump-sum payment received from the Civil Service Retirement System (CSRS) is taxable under Section 72(e) of the Internal Revenue Code.
2. Whether the portion of the lump-sum payment representing a “deemed deposit” is includable in the taxpayers’ taxable income for 1987.

Holding

1. Yes, because the lump-sum payment was received from a plan described in Section 401(a) and under an annuity contract, making it subject to tax under Section

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72(e).
2. The decision on the “deemed deposit” was deferred to allow further calculation and explanation by the parties.

Court’s Reasoning

The Tax Court applied the statutory provisions of Sections 402(a) and 72, finding that the CSRS is a plan described in Section 401(a) and thus falls within the ambit of Section 402(a), which provides for taxability under Section 72. The court rejected the argument that the CSRS was not a qualified plan, citing long-standing regulations and IRS rulings that include CSRS within the description of Section 401(a). The court also dismissed the contention that the payment was not made under an annuity contract, noting that the CSRS benefits are considered received under an annuity contract for tax purposes. The court emphasized that the lump-sum payment and annuity were part of an interrelated program of contributions and benefits, and thus should be treated as received under a single contract per Section 1. 72-2(a)(3)(i) of the Income Tax Regulations. The court’s decision was also influenced by the consistency of statutory language and the legislative history, including the repeal of Section 72(d) in the Tax Reform Act of 1986, which suggested no special treatment for CSRS beneficiaries was intended.

Practical Implications

This decision clarifies that lump-sum payments from the CSRS are taxable under Section 72(e), affecting how federal employees should report such payments on their tax returns. It underscores the importance of understanding the tax treatment of retirement benefits, particularly for those participating in government retirement plans. The ruling also impacts legal practice by affirming the applicability of Section 72 to governmental plans and reinforcing the significance of interrelated contributions and benefits in tax law. Subsequent cases and IRS guidance have followed this interpretation, ensuring consistent tax treatment of CSRS lump-sum payments. The decision also highlights the need for careful calculation and reporting of retirement benefits to avoid tax deficiencies and potential litigation.

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