Fowler v. Commissioner, 99 T. C. 187 (1992)

A taxpayer must elect 10-year averaging for all lump-sum distributions received in the same taxable year to apply it to any of them.

Summary

In Fowler v. Commissioner, the Tax Court ruled that Robert Fowler could not elect 10-year averaging for a lump-sum distribution from a profit-sharing plan while rolling over another distribution from an incentive savings plan in the same year. The court held that under section 402(e)(4)(B) of the Internal Revenue Code, a taxpayer must elect 10-year averaging for all lump-sum distributions received in a single year or forfeit the election for any of them. This decision was based on the plain language of the statute, despite arguments that it might lead to inequitable results. The ruling has significant implications for tax planning involving lump-sum distributions, requiring taxpayers to carefully consider their options.

Facts

In 1986, Robert Fowler terminated his employment with Leslie E. Robertson Associates and received a lump-sum distribution of $175,782. 81 from a profit-sharing plan and $112,190. 19 from an incentive savings plan. He rolled over $77,906. 38 of the incentive savings plan distribution into an individual retirement account but did not roll over any of the profit-sharing distribution. Fowler attempted to elect 10-year averaging for the profit-sharing distribution on his amended 1986 tax return, while excluding the rolled-over incentive savings distribution from his income.

Procedural History

The Commissioner determined a deficiency in Fowler's 1986 federal income tax and an addition to tax, which was later conceded. Fowler filed a petition with the Tax Court, challenging the disallowance of the 10-year averaging election for the profit-sharing distribution. The case was submitted fully stipulated, and the Tax Court ruled against Fowler, affirming the Commissioner's position.

Issue(s)

1. Whether a taxpayer can elect 10-year averaging under section 402(e)(1) for one lump-sum distribution received in a single taxable year while rolling over another lump-sum distribution received in the same year under section 402(a)(5).

Holding

1. No, because section 402(e)(4)(B) requires that a taxpayer elect 10-year averaging for all lump-sum distributions received in the same taxable year to apply it to any of them.

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Court’s Reasoning

The Tax Court relied on the plain language of section 402(e)(4)(B), which states that a taxpayer must elect to treat “all such amounts” received during the taxable year as lump-sum distributions to apply 10-year averaging. The court rejected Fowler’s argument that the phrase “all such amounts” should be interpreted to mean only taxable amounts, emphasizing that the statute’s language was clear and unambiguous. The court also considered the legislative history, which supported the requirement that all distributions be included in the election. The court noted that while a literal reading of the statute might lead to perceived inequities, it was up to Congress, not the courts, to address such issues. The decision was consistent with the principle of statutory construction that the plain meaning of legislation should be conclusive, except in rare cases where it would produce results demonstrably at odds with the intentions of its drafters.

Practical Implications

Fowler v. Commissioner has significant implications for tax planning involving lump-sum distributions. Taxpayers must carefully consider whether to elect 10-year averaging for all distributions received in a single year or to roll over any portion of those distributions. The decision underscores the importance of understanding the statutory requirements before making such elections. It also highlights the potential tax consequences of rolling over part of a distribution while attempting to apply 10-year averaging to another part. Subsequent cases have followed this ruling, emphasizing the all-or-nothing nature of the 10-year averaging election. Tax practitioners must advise clients on the potential benefits and drawbacks of each option, considering the taxpayer’s overall financial situation and future tax liabilities.

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