Powell v. Commissioner, 100 T. C. 77 (1993)

Payments under employment agreements entered into, renewed, or significantly amended before June 14, 1984, are not subject to the golden parachute payments excise tax under Section 4999 of the Internal Revenue Code.

Summary

In Powell v. Commissioner, the U. S. Tax Court ruled that severance and stock option cancellation payments received by Virgil Powell upon his termination from Woods Petroleum Corporation were not subject to the golden parachute payments excise tax. The court found that Powell's employment agreement, established before the effective date of the tax (June 14, 1984), was neither renewed nor significantly amended after this date. Additionally, the court determined that a portion of the stock option payment did not meet the threshold for a parachute payment under the tax code. This case clarifies the conditions under which golden parachute payments are taxable, focusing on the timing and amendments of employment agreements.

Facts

Virgil Powell was employed by Woods Petroleum Corporation, rising to the position of president and CEO. In 1982, he entered into an employment agreement with Woods, which was amended in November 1983 to include severance provisions contingent on a change in control of the company. In May 1985, after Sunshine Mining Company acquired over 30% of Woods' stock and merged with it, Powell resigned. Woods paid Powell $3,475,000 to settle his employment agreement and $1,525,000 for his stock options. The IRS argued these payments were subject to the golden parachute excise tax under Section 4999 of the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Powell's 1985 federal income tax due to the golden parachute payments excise tax. Powell and his wife, Miriam, filed a petition with the U. S. Tax Court, which heard the case and issued its opinion on February 2, 1993, ruling in favor of the Powells.

Issue(s)

1. Whether Powell's employment agreement with Woods was entered into, renewed, or amended in any significant relevant aspect after June 14, 1984, making it subject to the golden parachute payments excise tax under Section 4999.
2. Whether $762,500 of the $1,525,000 stock option cancellation payment constituted a "parachute payment" within the meaning of Section 280G(b)(2)(A).

Holding

1. No, because Powell's employment agreement was not entered into, renewed, or

© 2025 SCOTUSreports.com. All rights reserved.

amended in any significant relevant aspect after June 14, 1984, the $3,475,000 employment severance payment was not subject to the golden parachute payments excise tax under Section 4999.
2. No, because the $762,500 payment did not meet the threshold for a parachute payment under Section 280G(b)(2)(A)(ii), as it did not equal or exceed three times Powell's base amount.

Court's Reasoning

The court applied the effective date rule of the Deficit Reduction Act of 1984, which stated that Sections 280G and 4999 apply to agreements entered into, renewed, or amended in any significant relevant aspect after June 14, 1984. The court found that Powell's employment agreement was not cancellable at will, as it had a specified term and could not be canceled without liability. The court also determined that the supplemental pension plan adopted by Woods in November 1984 did not amend Powell's employment agreement in a significant relevant aspect, as it merely implemented a preexisting contractual guarantee. For the stock option cancellation payment, the court calculated that $762,500 did not meet the threshold for a parachute payment under Section 280G(b)(2)(A)(ii).

Practical Implications

This decision clarifies that payments under employment agreements entered into before June 14, 1984, are not subject to the golden parachute payments excise tax unless significantly amended after that date. Legal practitioners must carefully review the terms and amendments of pre-existing employment agreements to determine the applicability of Section 4999. The ruling also underscores the importance of calculating whether payments meet the threshold for parachute payments under Section 280G. This case has been cited in subsequent litigation involving the golden parachute excise tax, influencing how such cases are analyzed and decided.

© 2025 SCOTUSreports.com. All rights reserved.