***Cebula v. Commissioner, 104 T. C. 439 (1995)***

Lump-sum distributions from a deceased employee's retirement plan are not eligible for 5-year averaging if the employee had not attained age 59½ at the time of distribution.

**Summary**

In Cebula v. Commissioner, the court ruled that a widow could not use 5-year averaging to calculate the tax on a lump-sum distribution from her late husband's retirement plan because he had not reached age 59½ at the time of his death. The Internal Revenue Code limits this tax benefit to distributions received after the employee reaches that age. The court rejected the widow's arguments that the age requirement should not apply to distributions received by beneficiaries due to the employee's death, emphasizing the statutory language and congressional intent to restrict such tax benefits.

**Facts**

Joseph Cebula, employed as a faculty member at Philadelphia Community College, died at age 45 in 1988. He was a participant in the college's qualified pension plan. After his death, his widow, the petitioner, elected to receive the funds from his retirement plan in a lump-sum distribution during 1989, totaling $174,988. 15. On her 1989 tax return, she attempted to use 5-year averaging to compute the tax on this distribution. The Commissioner disallowed this method, recalculating the tax without averaging.

**Procedural History**

The Commissioner assessed an income tax deficiency against the petitioner for the 1989 taxable year due to her use of 5-year averaging on the lump-sum distribution. The petitioner challenged this determination in the Tax Court, which subsequently upheld the Commissioner's position.

**Issue(s)**

1. Whether a lump-sum distribution received by a beneficiary from a deceased employee's retirement plan is eligible for 5-year averaging under section 402(e)(1) of the Internal Revenue Code when the employee had not attained age 59½ at the time of the distribution.

**Holding**

1. No, because section 402(e)(4)(B) of the Internal Revenue Code restricts 5-year averaging to lump-sum distributions received on or after the employee has attained age 59½, and this restriction applies to all lump-sum distributions, including those received by beneficiaries due to the employee's death.

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## Court’s Reasoning

The court’s decision hinged on the interpretation of section 402(e)(4)(B), which limits 5-year averaging to distributions received after the employee reaches age 59½. The court rejected the petitioner’s argument that this limitation should not apply to beneficiaries, emphasizing that the statutory language uses “with respect to an employee,” indicating that all distributions from an employee’s plan are related to that employee, regardless of the recipient. The court also noted that the provision allowing the taxpayer to elect averaging further supports that beneficiaries may receive distributions but are still subject to the age 59½ requirement. Legislative history and policy considerations, such as preventing early withdrawal of retirement funds, reinforced the court’s interpretation. The court also referenced Hegarty v. Commissioner, where involuntary distributions were similarly denied 5-year averaging due to the age requirement.

## Practical Implications

This decision clarifies that beneficiaries of deceased employees cannot use 5-year averaging for lump-sum distributions if the employee had not reached age 59½ at the time of distribution. Legal practitioners must advise clients on the availability of tax benefits for retirement plan distributions, emphasizing the importance of the employee’s age at the time of distribution or death. This ruling impacts estate planning and tax strategies involving retirement benefits, as beneficiaries may need to consider alternative tax deferral methods, such as rollovers into IRAs. Subsequent cases have followed this precedent, further solidifying the interpretation of the age requirement in section 402(e)(4)(B).

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