Lee Engineering Supply Co. v. Commissioner, 101 T. C. 189 (1993)

Employers are subject to excise taxes for failing to meet minimum funding standards for pension plans and for reversions of excess funds to the employer upon plan termination.

Summary

Lee Engineering Supply Co. faced excise tax liabilities due to its pension plan's funding deficiency and subsequent reversion of excess funds. The company failed to make a required $6,800 contribution by the due date in 1985, resulting in a 5% excise tax under IRC section 4971. Additionally, when terminating the plan in 1987, Lee Engineering transferred $16,241 from the pension plan to its profit-sharing plan, which was deemed an employer reversion subject to a 10% excise tax under IRC section 4980. The court upheld these taxes, emphasizing the mandatory nature of the excise taxes and the statutory definition of an employer reversion.

Facts

Lee Engineering Supply Co. , Inc. adopted a defined benefit pension plan in 1975. In 1985, the company decided to terminate the plan but failed to make a required contribution of $6,853 by the due date of October 15, 1985. The plan was eventually terminated in February 1986, with the pension fund's assets exceeding liabilities by $16,241. 08, which was transferred to the company's profit-sharing plan. The company did not file Form 5330 for either the 1985 funding deficiency or the 1987 reversion.

Procedural History

The Commissioner determined deficiencies in Lee Engineering's excise taxes for fiscal years ending 1985 and 1987, along with additions to tax for failure to file and pay. The case was assigned to a Special Trial Judge of the U. S. Tax Court, which adopted the opinion that upheld the deficiencies and additions to tax for 1985 but not for 1987.

Issue(s)

1. Whether Lee Engineering is liable for the 5% excise tax under IRC section 4971 for an accumulated funding deficiency in its pension plan for the fiscal year ending 1985?
2. Whether Lee Engineering is liable for the 10% excise tax under IRC section 4980 for an employer reversion for the fiscal year ending 1987?
3. Whether Lee Engineering is liable for additions to tax under IRC section 6651(a)(1) and (2) for failure to timely file Form 5330 and pay the tax due for the fiscal year ending 1985?

Holding

© 2025 SCOTUSreports.com. All rights reserved.

1. Yes, because Lee Engineering failed to make the required contribution by the due date, resulting in an accumulated funding deficiency subject to the excise tax.
2. Yes, because the transfer of excess funds from the terminating pension plan to the profit-sharing plan constituted an employer reversion subject to the excise tax.
3. Yes, because Lee Engineering did not file Form 5330 for the fiscal year ending 1985 and intentionally delayed the required contribution.

Court's Reasoning

The court's decision was based on the mandatory language of IRC sections 4971 and 4980. For the 1985 deficiency, the court followed precedent from *D. J. Lee, M. D. , Inc. v. Commissioner*, emphasizing that the excise tax is automatic upon a funding deficiency. Regarding the 1987 reversion, the court relied on the statutory definition of an employer reversion and legislative history indicating that transfers to defined contribution plans constitute reversions. The court rejected Lee Engineering's equitable arguments, noting that the company did not seek a hardship waiver and failed to file required forms. The court also considered the legislative purpose of protecting employee retirement benefits and recapturing tax benefits on employer reversions.

Practical Implications

This decision reinforces the importance of timely compliance with pension plan funding requirements and the consequences of employer reversions. Employers must adhere to the minimum funding standards under IRC section 412 to avoid excise taxes under section 4971. When terminating a defined benefit plan, any transfer of excess assets to another plan of the same employer is treated as an employer reversion subject to the 10% excise tax under section 4980. This ruling impacts how employers manage pension plan terminations and highlights the need for careful planning and consultation with tax professionals to avoid unexpected tax liabilities. Subsequent cases have continued to apply these principles, emphasizing the broad scope of what constitutes an employer reversion.

© 2025 SCOTUSreports.com. All rights reserved.