Janpol v. Commissioner, 101 T. C. 524 (1993)

Loans and guarantees by disqualified persons to employee benefit plans are prohibited transactions under ERISA, subject to excise taxes.

Summary

In Janpol v. Commissioner, the Tax Court ruled that loans and guarantees made by disqualified persons to the Imported Motors Profit Sharing Trust were prohibited transactions under section 4975 of the Internal Revenue Code. Arthur Janpol and Donald Berlin, shareholders and trustees of the trust, had loaned money and guaranteed lines of credit to the trust. The court held that these actions constituted prohibited transactions, subjecting the petitioners to excise taxes. The decision emphasized the per se prohibition on such transactions to prevent potential abuses and protect the integrity of employee benefit plans. The court also clarified that the liquidation of the corporation did not absolve it of liability for transactions occurring prior to dissolution.

Facts

Arthur Janpol and Donald Berlin were 50% shareholders of Art Janpol Volkswagen, Inc. (AJVW), which established the Imported Motors Profit Sharing Trust for its employees. Janpol and Berlin were trustees and beneficiaries of the trust. From 1986 to 1988, they loaned money to the trust and guaranteed lines of credit extended by Sunwest Bank to the trust. In May 1986, AJVW sold its assets and was liquidated by December 31, 1986. Janpol and Berlin each transferred $500,000 to the trust as loans from their liquidation distributions. The IRS later determined deficiencies against them for prohibited transactions under section 4975.

Procedural History

The IRS issued notices of deficiency to Janpol and Berlin for the tax years 1986, 1987, and 1988, asserting that their loans and guarantees to the trust were prohibited transactions under section 4975. The petitioners contested these deficiencies in the U. S. Tax Court. The court reviewed the case and issued its opinion, affirming the IRS's determination and clarifying the scope of prohibited transactions under ERISA.

Issue(s)

1. Whether loans by petitioners to the Imported Motors Profit Sharing Trust and guarantees by petitioners of lines of credit extended by Sunwest Bank to the trust are prohibited transactions within the meaning of section 4975(c)(1)(B).
2. Whether the liquidation and dissolution of AJVW as of December 31, 1986, prevented it from being liable for the tax on prohibited transactions under section 4975(a) with respect to advances made during 1987.
3. Whether respondent has correctly computed the excise tax under section 4975(a)

© 2025 SCOTUSreports.com. All rights reserved.

with respect to the prohibited transactions.

Holding

1. Yes, because the plain language of section 4975(c)(1)(B) prohibits any lending of money or other extension of credit between a plan and a disqualified person, including loans from disqualified persons to the plan.
2. No, because AJVW remained liable for excise taxes on prohibited transactions occurring before its dissolution, including the continuing guarantee until it was released.
3. Yes, because the tax under section 4975(a) is computed based on the gross amount of loans outstanding at the end of each year, not just the net increase.

Court's Reasoning

The court relied on the plain language of section 4975(c)(1)(B), which prohibits any direct or indirect lending of money or extension of credit between a plan and a disqualified person. The court cited previous cases such as Rutland v. Commissioner and Leib v. Commissioner, which established that loans from disqualified persons to plans are prohibited transactions. The court emphasized that the legislative history of ERISA and section 4975 aimed to prevent potential abuses by imposing per se rules. The court also clarified that guarantees are considered extensions of credit and are therefore prohibited. Regarding AJVW's liability post-dissolution, the court noted that the corporation remained liable for taxes on transactions occurring before its dissolution, including the continuing guarantee until its release. The court upheld the IRS's computation of the excise tax, stating that it should be based on the gross amount of loans outstanding each year.

Practical Implications

This decision reinforces the broad scope of prohibited transactions under ERISA and section 4975, affecting how fiduciaries and disqualified persons interact with employee benefit plans. Legal practitioners must advise clients to avoid any direct or indirect loans or extensions of credit to plans, including guarantees, to prevent excise tax liabilities. The ruling clarifies that the liquidation of a corporation does not absolve it of liability for prohibited transactions occurring prior to dissolution. This case also provides guidance on computing the excise tax, emphasizing that it applies to the gross amount of loans outstanding each year. Subsequent cases, such as Westoak Realty & Inv. Co. v. Commissioner, have reinforced these principles, ensuring the integrity of employee benefit plans.

© 2025 SCOTUSreports.com. All rights reserved.