Rubin v. Commissioner, 103 T. C. 200 (1994)

An employer's deduction for contributions to a pension plan must be based on the certified actuarial report filed with the IRS, not on preliminary or uncertified actuarial information.

Summary

In Rubin v. Commissioner, the Tax Court ruled that Resource Systems, Inc. (RS) could not deduct contributions to its pension plan beyond the amount certified in the plan's Schedule B, filed with Form 5500-R. RS, an S corporation, had contributed $56,773 to its pension plan, claiming a deduction on its tax return. However, the certified Schedule B reported only $20,000 contributed, with a maximum deductible amount of $19,821. The court rejected RS's reliance on preliminary actuarial information and its attempt to amend Schedule B, emphasizing that deductions must align with the certified report.

Facts

Leonard R. Rubin and Rosalie S. Rubin owned all stock in Resource Systems, Inc. (RS), an S corporation. For the tax year ending June 30, 1988, RS made timely contributions totaling $56,773 to its defined benefit pension plan and claimed a corresponding deduction on its Form 1120S. The Schedule B, certified by actuaries and attached to Form 5500-R, reported only $20,000 contributed with a maximum deductible amount of $19,821. The IRS denied the deduction for contributions exceeding $19,821, increasing the Rubins' income accordingly.

Procedural History

The IRS issued a notice of deficiency to the Rubins for the tax year 1988, denying RS's deduction for contributions over $19,821. The Rubins petitioned the U. S. Tax Court, which upheld the IRS's determination, ruling that RS could not rely on uncertified actuarial information or amend the certified Schedule B to support a higher deduction.

Issue(s)

1. Whether RS's reliance on uncertified, preliminary actuarial information satisfies the statutory requirements of sections 412(c)(3) and 6059 of the Internal Revenue Code and related regulations?
2. Whether RS is entitled to file an amended Schedule B with revised actuarial assumptions for the plan year ended June 30, 1988?
3. Whether the actuaries' failure to justify a change in interest rate assumptions precludes the IRS from accepting those assumptions as reasonable?

Holding

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1. No, because RS's reliance on uncertified, preliminary information does not meet the statutory requirements of sections 412(c)(3) and 6059 and related regulations, which require reliance on certified actuarial reports.
2. No, because section 1. 404(a)-3(c) of the Income Tax Regulations prohibits amending actuarial assumptions for a tax year after the return has been filed unless the Commissioner deems the original assumptions improper.
3. No, because the IRS's acceptance of the actuarial assumptions as reasonable is not precluded by the actuaries' failure to justify a change in interest rate assumptions.

Court's Reasoning

The court emphasized that sections 412(c)(3) and 6059 of the Internal Revenue Code require employers to rely on certified actuarial reports (Schedule B) when claiming deductions for pension plan contributions. The court rejected RS's reliance on preliminary actuarial information, stating that allowing such reliance would undermine the purpose of section 6059, which is to ensure that actuarial assumptions are reasonable and prevent employers from substituting their judgment for that of actuaries. The court also held that RS could not amend the Schedule B to revise actuarial assumptions after filing, as prohibited by section 1. 404(a)-3(c) of the Income Tax Regulations. Furthermore, the court noted that while the actuaries failed to justify a change in interest rate assumptions, this did not preclude the IRS from accepting the assumptions as reasonable, as the IRS has discretion under the regulations to determine the reasonableness of actuarial assumptions.

Practical Implications

This decision underscores the importance of relying on certified actuarial reports when claiming deductions for pension plan contributions. Employers must ensure that their deductions align with the certified Schedule B filed with Form 5500-R and cannot rely on preliminary or uncertified actuarial information. The ruling also clarifies that employers are generally prohibited from amending actuarial assumptions after filing the return unless the IRS determines the original assumptions were improper. This case serves as a reminder for employers and tax professionals to carefully review and verify actuarial reports before filing and to understand the limitations on amending such reports. Subsequent cases have followed this precedent, reinforcing the necessity of certified actuarial reports in pension plan deduction calculations.

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