National Presto Industries, Inc. and Subsidiary Corporations, Petitioner v. Commissioner of Internal Revenue, Respondent, 104 T. C. 559 (1995)

An account receivable does not constitute 'assets set aside' for the purpose of increasing a welfare benefit fund's account limit under section 419A(f)(7) of the Internal Revenue Code.

Summary

National Presto Industries established a Voluntary Employees' Beneficiary Association (VEBA) to provide health and welfare benefits to its employees. The company claimed deductions for contributions to the VEBA under the accrual method of accounting. At the end of 1984, the VEBA's financial statements showed an account receivable from National Presto. The key issue was whether this receivable constituted 'assets set aside' under section 419A(f)(7) for increasing the VEBA's account limit in 1987. The Tax Court held that it did not, reasoning that the receivable was merely a bookkeeping entry and not an actual asset set aside for employee benefits. This decision impacts how companies can deduct contributions to welfare benefit funds and highlights the importance of actual funding versus mere accounting entries.

Facts

National Presto Industries, Inc. established a VEBA on December 15, 1983, to provide health and welfare benefits to its employees. For the 1983 and 1984 taxable years, National Presto claimed deductions for contributions to the VEBA based on the accrual method of accounting. In 1983, no payments were made to the VEBA, and in 1984, cash payments totaled $768,305. By the end of 1984, the VEBA's financial statements showed an account receivable from National Presto of $2,388,824. The issue arose when National Presto sought to use this receivable to increase the VEBA's account limit for the 1987 taxable year under section 419A(f)(7) of the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue disallowed a portion of the deduction claimed by National Presto for contributions made to the VEBA in 1987. National Presto filed a petition with the United States Tax Court to contest this disallowance. The case was submitted fully stipulated, and the court found for the respondent, ruling that the account receivable did not constitute 'assets set aside' under section 419A(f)(7).

Issue(s)

1. Whether an account receivable from the employer reflected on the books of a VEBA at the end of a taxable year constitutes 'assets set aside' within the meaning of section 419A(f)(7) of the Internal Revenue Code.

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Holding

1. No, because the account receivable was merely a bookkeeping entry and did not represent actual money or property set aside for the purpose of providing employee benefits.

Court’s Reasoning

The Tax Court interpreted the term ‘assets set aside’ in the context of the legislative history of the Deficit Reduction Act of 1984 (DEFRA), which introduced sections 419 and 419A to limit deductions for contributions to welfare benefit funds. The court emphasized that Congress intended to distinguish between funded and unfunded benefit plans. An unfunded obligation, such as the account receivable in question, was not considered an asset set aside for providing benefits. The court noted that the VEBA’s trust document defined contributions as money paid to the fund, not as bookkeeping entries. Furthermore, the receivable greatly exceeded any actual liability National Presto had to the VEBA at the end of 1984. The court also referenced the case of General Signal Corp. v. Commissioner to support its conclusion that a mere liability does not constitute a funded reserve. The court concluded that the account receivable did not qualify as ‘assets set aside’ under section 419A(f)(7).

Practical Implications

This decision clarifies that for tax deduction purposes, only actual assets set aside, not mere bookkeeping entries or unfunded obligations, can be used to increase a welfare benefit fund’s account limit. Companies must ensure that contributions to such funds are actually paid, not just accrued, to claim deductions. This ruling impacts how employers structure their welfare benefit plans and the timing of their contributions to ensure they meet the requirements for tax deductions. It also serves as a reminder for practitioners to carefully review the funding status of welfare benefit funds when advising clients on tax strategies. Subsequent cases have continued to reference this decision when addressing similar issues regarding the deductibility of contributions to welfare benefit funds.

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