Rodoni v. Commissioner, 105 T. C. 29 (1995)

A tax-free rollover from a qualified plan to an IRA must be to an IRA established for the benefit of the employee who received the distribution.

Summary

Mario Rodoni received a lump-sum distribution from his employer's profit sharing plan and transferred it to his wife, Donna Rodoni, who deposited it into her IRA within 60 days. The court held that this transfer did not qualify as a tax-free rollover under IRC sections 402(a)(5) or 402(a)(6)(F). The key issue was whether the IRA could be established in the name of someone other than the employee receiving the distribution. The court ruled that for a rollover to be tax-free under section 402(a)(5), the IRA must be for the employee's benefit, and under section 402(a)(6)(F), a qualified domestic relations order (QDRO) must be in place before the distribution. The decision underscores the strict requirements for tax-free rollovers and the necessity of QDROs in marital property divisions involving retirement plans.

Facts

Mario Rodoni received a lump-sum distribution of $307,204. 46 from Sunset Farms, Inc. 's profit sharing plan on February 5, 1988. He immediately handed the check to his wife, Donna Rodoni, who deposited it into a joint account. Within 60 days, Donna transferred the funds into her own IRA. The Rodonis were in the process of a divorce, and a Marital Settlement Agreement was executed, which was later incorporated into their Judgment of Dissolution of Marriage entered nunc pro tunc to December 31, 1988. The agreement specified that Donna was to receive the community property interest in the profit sharing plan.

Procedural History

The IRS determined a deficiency in the Rodonis' 1988 federal income tax due to the lump-sum distribution. The Rodonis petitioned the U. S. Tax Court, arguing that the transfer to Donna's IRA qualified as a tax-free rollover. The Tax Court held that the transfer did not meet the requirements for a tax-free rollover under sections 402(a)(5) or 402(a)(6)(F).

Issue(s)

1. Whether the transfer of a lump-sum distribution from a qualified plan to an IRA in the name of the employee's spouse qualifies as a tax-free rollover under IRC section 402(a)(5).
2. Whether such a transfer qualifies as a tax-free rollover under IRC section 402(a)(6)(F) when made pursuant to a domestic relations order.

Holding

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1. No, because the rollover must be to an IRA established for the benefit of the employee who received the distribution, not the spouse.
2. No, because the lump-sum distribution was not made by reason of a qualified domestic relations order (QDRO).

Court’s Reasoning

The court interpreted section 402(a)(5) to require that the IRA be established for the benefit of the employee receiving the distribution. The legislative history emphasized the purpose of promoting portability of pension benefits for the employee’s retirement. The court rejected the argument that an employee could roll over funds into any individual’s IRA, including a spouse’s, as it would contradict this purpose. For section 402(a)(6)(F), the court found that a QDRO must be in place before the distribution to qualify as tax-free. The Rodonis’ Judgment of Dissolution did not meet the QDRO requirements because it was not presented to the plan administrator before the distribution and did not clearly specify the necessary details about the distribution. The court also rejected the Rodonis’ argument of substantial compliance with these statutory provisions, noting that the requirements were substantive and essential to the statute’s purpose.

Practical Implications

This decision emphasizes the strict requirements for tax-free rollovers from qualified plans to IRAs, particularly the necessity that the IRA be established in the name of the employee receiving the distribution. For practitioners, it is crucial to ensure that any rollover complies with these requirements, and that any marital property division involving retirement plans includes a QDRO that is presented to the plan administrator before any distribution. The ruling affects how attorneys draft marital settlement agreements and QDROs, ensuring they meet statutory specifications to avoid tax consequences. Subsequent cases have cited Rodoni in upholding the need for strict adherence to rollover rules and QDRO requirements.

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