Lucky Stores, Inc. v. Commissioner, 107 T. C. 1 (1996)

Post-yearend contributions to pension plans are not deductible in the prior tax year unless they are on account of that year.

Summary

Lucky Stores attempted to deduct contributions to 29 collectively bargained pension plans for the fiscal year ending February 2, 1986, which included contributions made after the fiscal year but before the extended tax filing deadline. The court held that these post-yearend contributions were not deductible for the 1986 tax year because they were not 'on account of' that year, as they related to hours worked after the fiscal year end. This ruling emphasizes the importance of the timing of contributions in relation to the taxable year for deduction purposes.

Facts

Lucky Stores, Inc. made monthly contributions to 29 collectively bargained defined benefit pension plans based on hours worked by covered employees. For its fiscal year ending February 2, 1986, Lucky Stores received an extension to file its tax return until October 15, 1986. On its return, Lucky Stores claimed a deduction not only for contributions related to hours worked during the fiscal year but also for contributions related to hours worked from February 3, 1986, through August 31, 1986, or in some cases, September 30, 1986.

Procedural History

The Commissioner of Internal Revenue disallowed the deduction for the post-yearend contributions, leading Lucky Stores to petition the U. S. Tax Court. The Tax Court, after considering the arguments and evidence, issued its opinion on August 6, 1996, ruling on the deductibility of the contributions in question.

Issue(s)

1. Whether post-yearend contributions to pension plans, made after the close of the fiscal year but before the extended tax filing deadline, are deductible in the prior tax year under section 404(a)(6) of the Internal Revenue Code?

Holding

1. No, because the post-yearend contributions were not 'on account of' the tax year ended February 2, 1986, as they related to hours worked after that date.

Court's Reasoning

The court applied section 404(a)(6) of the Internal Revenue Code, which allows contributions made within the grace period to be deemed paid on the last day of the

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preceding taxable year if they are ‘on account of’ that year. The court rejected Lucky Stores’ interpretation that post-yearend contributions could be deemed on account of the prior year merely because they were claimed as such on the tax return. The court emphasized that the contributions must be treated by the pension plan in the same manner as if they were received on the last day of the preceding year. Since Lucky Stores’ contributions related to hours worked after February 2, 1986, they were not treated as being on account of the prior year by the plans. The court also considered the legislative history of section 404(a)(6), which aimed to provide parity between cash and accrual basis taxpayers and ensure contributions related back to the plan year for minimum funding standards. The court found no intent to expand the treatment of post-yearend payments beyond these purposes.

Practical Implications

This decision clarifies that contributions to pension plans must relate to the taxable year in which they are claimed as deductions. For employers contributing to multiemployer pension plans, this ruling necessitates careful timing of contributions to ensure they are deductible in the intended tax year. Legal practitioners advising clients on pension plan contributions should emphasize the importance of aligning contribution timing with the fiscal year to maximize tax benefits. The ruling may affect business planning, especially in years when tax rates change, as companies will need to consider the deductibility of contributions in their tax planning strategies. Subsequent cases applying this ruling have reinforced the principle that contributions must be clearly linked to the taxable year for which they are claimed as deductions.

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