Peat v. Commissioner, 111 T. C. 286 (1998)

Rollover contributions to an IRA or qualified plan must involve the same money or property distributed from the original account.

Summary

In Peat v. Commissioner, the Tax Court ruled that using distributions from Keogh and IRA accounts to purchase stock, which was then contributed to a new IRA, did not qualify as a tax-free rollover. The court emphasized that rollover contributions must involve the same money or property as the original distribution. Petitioner Peat withdrew funds from his retirement accounts to buy stock, which he later contributed to a new IRA, but the court found this did not meet the rollover requirements under sections 402(c) and 408(d)(3). The court also addressed the accuracy-related penalty under section 6662(a), ruling it inapplicable to the portion of the underpayment related to the stock purchase due to the novel legal issue involved.

Facts

Petitioner, a self-employed accountant, withdrew $480,414 from his Keogh and IRA accounts in December 1993. He used these funds, plus $12,883 of his own money, to purchase 30,000 shares of GP Financial Corp. stock for $450,000. Due to oversubscription, he received only 25,193 shares costing $377,895 and received a refund of $72,105 plus interest. On February 11, 1994, he contributed the purchased stock to a new IRA at Smith Barney Shearson. Petitioner did not report any of the distributions on his 1993 tax return, claiming a credit for the withheld taxes.

Procedural History

The IRS determined a deficiency in petitioner's 1993 federal income tax and an accuracy-related penalty under section 6662(a). The case was submitted fully stipulated to the U. S. Tax Court, where the issues of the tax-free rollover and the penalty were considered.

Issue(s)

1. Whether petitioner's use of distributions from Keogh and IRA accounts to purchase stock, which was then contributed to an IRA, constitutes a tax-free rollover contribution.
2. Whether petitioner received a taxable distribution of money not contributed to an IRA.
3. Whether petitioner is liable for the accuracy-related penalty under section 6662(a).

Holding

1. No, because the rollover provisions require that the same money or property distributed be contributed to the new account.
2. Yes, because the $102,519 not used to purchase the stock was taxable.
3. No, for the portion of the underpayment related to the stock purchase due to the novel legal issue; Yes, for the portion related to the $102,519 not used to purchase the stock.

Court's Reasoning

The court's decision hinged on the interpretation of sections 402(c) and 408(d)(3), which govern rollovers from qualified plans and IRAs, respectively. The court noted that the legislative history of these provisions repeatedly emphasized the requirement of contributing "this same money or property" to the new account. The court rejected petitioner's argument that using the funds to buy stock and then contributing the stock qualified as a rollover, stating that the statutory language and legislative history clearly required the same money or property. The court also considered the accuracy-related penalty, finding it inapplicable to the stock purchase issue due to its novelty but applicable to the unreported $102,519. The court quoted the legislative history, which stated, "the same amount of money (or the same property)" must be rolled over, to support its interpretation.

Practical Implications

This decision clarifies that for a rollover to be tax-free, the exact money or property withdrawn must be contributed to the new account within the 60-day period. It impacts how taxpayers and their advisors should handle retirement account distributions intended for rollovers. Practitioners must advise clients that converting cash to other assets before contributing to an IRA does not qualify as a rollover. The ruling also highlights the importance of reporting all distributions, even if intended for rollover, to avoid penalties. Subsequent cases, such as Rev. Rul. 87-77, have provided limited exceptions where property can be sold and the proceeds rolled over, but these exceptions are narrow and must be carefully considered.

