Bohner v. Commissioner, 143 T. C. No. 11 (U. S. Tax Court 2014)

In Bohner v. Commissioner, the U. S. Tax Court ruled that Dennis Bohner's withdrawal from his IRA to fund a payment to the Civil Service Retirement System (CSRS) was taxable income, not a tax-free rollover. The court found that CSRS did not accept the payment as a rollover, thus the funds withdrawn from the IRA could not be excluded from Bohner's taxable income. This decision clarifies that the tax treatment of contributions to CSRS hinges on whether the plan accepts them as rollovers, impacting how retirees can manage their retirement funds.

Parties

Dennis E. Bohner, the petitioner, challenged the Commissioner of Internal Revenue, the respondent, over a tax deficiency determined for the year 2010.

Facts

Dennis E. Bohner, a retiree from the Social Security Administration, participated in the Civil Service Retirement System (CSRS) during his employment. After retirement, he received a letter from the Office of Personnel Management (OPM) offering an opportunity to increase his CSRS annuity by paying $17,832 for creditable service during which no retirement contributions were withheld. Bohner, lacking sufficient funds, borrowed part of the sum and used subsequent withdrawals from his traditional Individual Retirement Account (IRA) to repay the loan and replenish his bank account. He did not report these IRA withdrawals as taxable income, asserting they constituted a tax-free rollover to CSRS.

Procedural History

The Commissioner issued a notice of deficiency determining a $4,590 tax deficiency for Bohner's 2010 tax year, treating the $17,832 IRA withdrawal as taxable income. Bohner petitioned the U. S. Tax Court, which reviewed the case and upheld the Commissioner's determination, ruling that the IRA withdrawals were taxable because CSRS did not accept them as a rollover.

Issue(s)

Whether the withdrawals from Bohner's IRA, used to make a payment to CSRS, constituted a tax-free rollover under Internal Revenue Code section 408(d)(3)?

Rule(s) of Law

Under section 408(d)(3)(A) of the Internal Revenue Code, a distribution from an IRA is not taxable if it is rolled over into an eligible retirement plan within 60 days. An eligible retirement plan includes a qualified trust under section 401(a), which CSRS is considered to be.

Holding

The Tax Court held that the IRA withdrawals did not qualify as a tax-free rollover because CSRS did not accept the payment as such, and thus, the withdrawals must be included in Bohner's taxable income for 2010.

Reasoning

The court reasoned that despite CSRS being a qualified trust under section 401(a), the plan did not accept rollovers, as evidenced by the lack of any provision in the governing statutes or regulations requiring CSRS to do so. The letter from OPM to Bohner was silent on the possibility of a rollover, and there was no record of Bohner informing CSRS of his intent to make a rollover. The court also noted that the statutory framework governing CSRS did not address the federal income tax treatment of contributions, leaving the tax implications of such contributions to be determined under the Internal Revenue Code. The court rejected the argument that the absence of a specific rule prohibiting rollovers into CSRS implied that they were allowed, emphasizing that the tax treatment of a rollover hinges on the plan's acceptance of the contribution as such.

Disposition

The court entered a decision for the respondent, affirming the tax deficiency determined by the Commissioner.

Significance/Impact

Bohner v. Commissioner clarifies the tax implications of contributions to the Civil Service Retirement System, emphasizing that the tax treatment depends on whether the plan accepts the payment as a rollover. This decision impacts how federal retirees can manage their retirement funds, particularly in relation to IRA rollovers, and underscores the importance of understanding the specific policies of retirement plans regarding rollovers. The case also highlights the discretionary power of plan administrators, like OPM, to accept or reject rollovers, affecting the tax planning strategies of retirees.

