Bohner v. Commissioner, 143 T. C. 224 (2014)

The U. S. Tax Court ruled in Bohner v. Comm'r that a retiree's withdrawal from a traditional IRA to fund a deposit into the Civil Service Retirement System (CSRS) could not be treated as a tax-free rollover. Dennis Bohner, a retired federal employee, attempted to increase his CSRS annuity by depositing funds withdrawn from his IRA, arguing it was a tax-free rollover. The court held that because CSRS does not accept rollovers, the withdrawal was taxable income. This decision clarifies the limits of what constitutes an 'eligible retirement plan' for rollover purposes under IRS regulations.

Parties

Dennis E. Bohner, Petitioner, v. Commissioner of Internal Revenue, Respondent. Bohner was the plaintiff throughout the litigation, and the Commissioner of Internal Revenue was the defendant.

Facts

Dennis E. Bohner worked for the Social Security Administration and participated in the Civil Service Retirement System (CSRS) during his employment. After retiring, Bohner received a letter from the Office of Personnel Management (OPM) stating he could increase his CSRS retirement annuity by remitting $17,832 to account for periods of service without withheld retirement contributions. The letter required payment within 15 days and was silent on the possibility of making the payment through a tax-free rollover. Bohner did not have sufficient funds in his bank account, so he borrowed money from a friend and then made a withdrawal of $5,000 from his traditional individual retirement account (IRA) with Fidelity Investments on April 15, 2010. He then mailed a check for $17,832 to OPM on April 27, 2010. Subsequently, Bohner withdrew an additional $12,832 from his IRA on May 3, 2010, to repay his friend and replenish his bank account. Bohner did not report any of the IRA withdrawals as taxable income on his 2010 tax return, claiming they were part of a tax-free rollover to CSRS.

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency to Bohner on July 2, 2012, determining a tax deficiency of $4,590 based on the inclusion of the $17,832 IRA withdrawal in Bohner's taxable income for 2010. Bohner petitioned the U. S. Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case and issued a decision for the respondent on September 23, 2014, affirming the Commissioner's determination that the IRA withdrawals were taxable income because they did not constitute a valid rollover to CSRS.

Issue(s)

Whether the withdrawals from Bohner's traditional IRA to fund his deposit into the

Civil Service Retirement System (CSRS) can be treated as a tax-free rollover under Section 408(d)(3) of the Internal Revenue Code?

Rule(s) of Law

Section 408(d)(3)(A) of the Internal Revenue Code provides that an IRA distribution is not taxable if the entire amount received is paid into an eligible retirement plan within 60 days of receipt. An "eligible retirement plan" includes a qualified trust under Section 401(a), among other plans. Section 408(d)(3)(A)(ii) specifies that the maximum amount that can be rolled over is the portion of the amount received that is includible in gross income. CSRS is a qualified trust under Section 401(a), but there is no specific provision requiring CSRS to accept rollovers from IRAs.

Holding

The Tax Court held that Bohner's IRA withdrawals were taxable income because they did not constitute a valid tax-free rollover to CSRS. The court determined that CSRS did not accept Bohner's remittance as a rollover, and therefore, the withdrawals from his IRA were not excluded from his taxable income under Section 408(d)(3).

Reasoning

The court's reasoning focused on the fact that CSRS does not accept rollovers, and there is no statutory or regulatory requirement for it to do so. The letter from OPM to Bohner was silent on the possibility of using a rollover for the deposit, and Title 5 U. S. C. Section 8334(c) does not specifically permit such a method. The court noted that even if CSRS accepted rollovers, only the portion of an IRA distribution that is otherwise includible in gross income may be rolled over, and Bohner's deposit was intended to replace after-tax contributions not originally withheld. The court also considered that CSRS would not be aware of the proper tax treatment of the payment upon distribution unless it explicitly accepted rollovers. The majority opinion rejected the argument that the plain language of Section 408(d)(3) allowed for the rollover without regard to CSRS's acceptance policy, emphasizing that the absence of a requirement for CSRS to accept rollovers meant the transaction did not qualify as a tax-free rollover. The court further distinguished this case from direct rollovers, where the receiving plan's acceptance policies are more clearly defined, and noted that indirect rollovers require the receiving plan's awareness and acceptance to maintain proper tax treatment.

Disposition

The Tax Court entered a decision for the respondent, affirming the Commissioner's determination that the IRA withdrawals were taxable income for Bohner in 2010.

Significance/Impact

The Bohner decision clarifies that for a tax-free rollover to occur, the receiving plan must accept the rollover. This ruling impacts retirees and taxpayers who seek to use funds from one retirement account to fund deposits into another, particularly when the receiving plan has not historically accepted rollovers. The case underscores the importance of understanding the specific policies and requirements of receiving plans in retirement planning and tax strategy. It also highlights the distinction between direct and indirect rollovers and the necessity for clear communication and acceptance by the receiving plan to achieve the desired tax treatment. Subsequent courts have cited Bohner to reinforce the principle that the eligibility of a plan to accept rollovers is a critical factor in determining the tax treatment of retirement account transactions.

