NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Lumber Co.,* 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

COMMISSIONER OF INTERNAL REVENUE *v.* KEYSTONE CONSOLIDATED INDUSTRIES, INC.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 91–1677. Argued February 22, 1993—Decided May 24, 1993

Respondent company, which maintained several tax-qualified defined benefit pension plans for its employees during the time at issue, contributed a number of unencumbered properties to the trust fund supporting the plans and then credited the properties' fair market value against its minimum funding obligation under the Employee Retirement Income Security Act of 1974 (ERISA). Petitioner, the Commissioner of Internal Revenue, ruled that respondent owed substantial excise taxes because the transfers to the trust were ``prohibited transactions'' under 26 U. S. C. §4975(c)(1)(A), which bars ``any direct or indirect . . . sale or exchange . . . of . . . property between a plan and a disqualified person'' such as the employer of employees covered by the plan. The Tax Court disagreed and entered summary judgment for respondent on its petition for redetermination, and the Court of Appeals affirmed.

Held: When applied to an employer's funding obligation, the contribution of unencumbered property to a defined benefit plan is a prohibited ``sale or exchange'' under §4975(c)(1)(A). Pp. 6–9.

(a) The well-established income tax rule that the transfer of property in satisfaction of a monetary obligation is a ``sale or exchange,'' see, *e.g., Helvering* v. *Hammel,* 311 U. S. 504, is applicable under §4975(c)(1)(A). That the latter section forbids the transfer of property in satisfaction of a debt is demonstrated by its prohibition not merely of a ``sale or exchange,'' but of ``any direct or indirect . . . sale or exchange.'' The contribution of property in satisfaction of a funding obligation is at least both an indirect type of sale and a form of exchange, since the property is exchanged for diminution of the employer's funding obligation. Pp. 6–7.

(b) The foregoing construction is necessary to accomplish §4975's goal to bar categorically a transaction likely to injure the pension plan. A property transfer poses various potential problems for the plan—including a shortage of funds to pay promised benefits, assumption of the primary obligation to pay any encumbrance, overvaluation of the property by the employer, the property's nonliquidity, the burden and cost of disposing of the property, and the employer's substitution of its own judgment as to investment policy—that are solved by §4975. Pp. 7–8.

(c) The Court of Appeals erred in reading §4975(f)(3)—which states that a transfer of property ``by a disqualified person to a plan shall be treated as a sale or exchange if the property is subject to a mortgage or similar lien''—as implying that a transfer cannot be a ``sale or exchange'' under §4975(c)(1)(A) unless the property is encumbered. The legislative history demonstrates that Congress intended §4975(f)(3) to expand, not limit, §4975(c)(1)(A)'s scope by extending the reach of ``sale or exchange'' to include contributions of encumbered property that do not satisfy funding obligations. The Commissioner's construction of §4975 is a sensible one. A transfer of encumbered property, like the transfer of unencumbered property to satisfy an obligation, has the potential to burden a plan, while a transfer of property that is neither encumbered nor satisfies a debt presents far less potential for causing loss to the plan. P. 9.

951 F. 2d 76, reversed.

BLACKMUN, J., delivered the opinion of the Court, in which REHNQUIST, C. J., and WHITE, O'CONNOR, KENNEDY, SOUTER, and THOMAS, JJ., joined, and in all but Part III–B of which SCALIA, J., joined. STEVENS, J., filed a dissenting opinion.