Wiener v. Commissioner, 12 T.C. 7 (1949)

A taxpayer can be held liable as a transferee for the tax liabilities of another if they received property from that person in a transaction intended to hinder, delay, or defraud creditors, even if the assessment against the transferor occurred after the transfer.

Summary

The petitioner, Wiener, was assessed transferee liability for tax deficiencies of a corporation, Stetson Shirt Shops, Inc., due to his role in a fraudulent conveyance orchestrated with his wife, Alice Wiener. The IRS argued that Wiener fraudulently transferred a lease belonging to his wife and used the proceeds to avoid her tax liabilities. The Tax Court upheld the Commissioner's determination, finding that the transfer was indeed a fraudulent attempt to avoid tax collection, making Wiener liable as a transferee under Michigan law and Section 311 of the Internal Revenue Code.

Facts

Stetson Shirt Shops, Inc. had a 1934 tax deficiency. Alice Wiener received assets from Stetson Shirt Shops, Inc., in 1938. The IRS determined Alice Wiener was liable for Stetson's 1934 taxes. Alice Wiener did not pay the taxes, and the IRS found no assets to levy. Alice Wiener had an option to lease property from St. Luke's, which St. Luke's refused to grant to the petitioner. The petitioner assigned a lease to Manteris. The IRS assessed Wiener for his wife's tax liability as a transferee of her assets after learning of the lease assignment.

Procedural History

The Commissioner determined a deficiency against Stetson Shirt Shops, Inc., for 1934. The Commissioner assessed Alice Wiener as a transferee of Stetson Shirt Shops, Inc., for the 1934 deficiency, a determination previously upheld by the Tax Court. The Commissioner then assessed the petitioner, Wiener, as a transferee of Alice Wiener, leading to this Tax Court case.

Issue(s)

Whether the petitioner, Wiener, was a transferee of assets from his wife, Alice Wiener, and whether the transfer of a lease and its proceeds constituted a fraudulent conveyance designed to avoid her tax liabilities, thus making him liable for her tax deficiencies.

Holding

Yes, because the transfer of the lease was a fraudulent attempt by the petitioner and his wife to hinder collection of taxes owed by the wife, making the petitioner liable

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as a transferee under Section 311 of the Internal Revenue Code and Michigan law.

Court's Reasoning

The Tax Court found the petitioner's actions, in concert with his wife, were a "studied attempt to hinder, delay, and defraud the Commissioner in the collection of taxes." The court relied on Michigan law, which states that conveyances made with the actual intent to hinder, delay, or defraud creditors are fraudulent. The court emphasized that the United States, as a creditor, is entitled to the same rights as a private citizen in pursuing fraudulently conveyed property. The court noted the suspicious nature of transactions between family members to the detriment of creditors and found no evidence to contradict the conclusion of fraudulent intent. The Court also noted that it did not matter that the assessment of the corporation's liability had not been made against the wife when the transfer occurred. The Court stated, "The status of creditor is determined as of the date when plaintiff's cause of action arose, not the date when judgment was obtained or entered."

Practical Implications

This case reinforces the principle that tax authorities can pursue transferees of fraudulently conveyed property to satisfy tax debts. It highlights that transactions between family members are subject to heightened scrutiny when they appear designed to avoid creditors, including the IRS. The case provides a clear example of how Section 311 of the Internal Revenue Code can be used to enforce tax collection against those who receive property in fraudulent conveyances. Furthermore, it emphasizes that the timing of the assessment against the transferor is not determinative; the key is whether the transfer was made with fraudulent intent. This case serves as a warning that attempts to shield assets from tax liabilities through intra-family transfers can be easily unwound by the IRS, leading to transferee liability.

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