12 T.C. 701 (1949)

A taxpayer who receives property from a transferor with the intent to hinder or defraud the United States' collection of taxes can be held liable as a transferee for the transferor's tax obligations, even if the property was initially transferred from the original taxpayer to the transferor.

Summary

William Wiener was assessed transferee liability for his deceased wife, Alice's unpaid tax obligations stemming from deficiencies and penalties assessed against Stetson Shirt Shops, Inc. The IRS argued that Alice fraudulently received assets from the corporation, rendering it insolvent, and then transferred a lease to William to avoid paying her taxes. The Tax Court upheld the IRS's determination, finding that William knowingly participated in a scheme to defraud the government by concealing assets and that the transfer of the lease constituted a fraudulent conveyance under Michigan law, thus justifying transferee liability.

Facts

Stetson Shirt Shops, Inc. was organized in 1931. William Wiener, managed the business and instructed the bookkeeper to keep two sets of books, one of which understated sales and overstated expenses for tax purposes. In 1938, the corporation transferred all its assets to Alice Wiener, William's wife, without consideration and dissolved. In 1942, William was convicted of filing a fraudulent tax return for the corporation. Alice later obtained a lease on property previously leased by the corporation and William. In 1946, William assigned this lease for $4,000 and a $7,000 note. The Commissioner determined that William was liable for the corporation's unpaid taxes and penalties as a transferee of Alice's assets.

Procedural History

The Commissioner assessed deficiencies and penalties against Stetson Shirt Shops, Inc., for 1934 and determined Alice Wiener was liable as a transferee. Alice petitioned the Tax Court, which upheld the Commissioner's determination in 1946. The Commissioner then determined that William Wiener was liable as a transferee of Alice's assets and issued a 90-day notice of deficiency. William Wiener then petitioned the Tax Court challenging the Commissioner's determination.

Issue(s)

Whether William Wiener was liable as a transferee of assets from Alice Wiener for the unpaid tax liabilities of Stetson Shirt Shops, Inc., due to a fraudulent transfer of a lease, intended to avoid Alice Wiener's tax obligations.

Holding

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Yes, because the transfer of the lease from Alice Wiener to William Wiener, and subsequently to a third party, was a fraudulent conveyance designed to hinder and delay the collection of taxes owed by Alice Wiener, making William liable as a transferee under applicable Michigan law and federal tax law.

Court's Reasoning

The court found that the corporation's 1934 tax return was fraudulent. It also found that Alice Wiener was liable as a transferee for the corporation's tax deficiencies. The central issue was whether William was a transferee of assets from Alice. The court determined that the lease assigned by William to Manteris was indeed Alice's property, originating from an option granted solely to her. William's actions, including his attempts to have the lease made solely in his name and his concealment of the $4,000 payment, demonstrated an intent to hinder and defraud the government's collection efforts. The court cited Michigan law, which considers conveyances made with the intent to hinder, delay, or defraud creditors as fraudulent. Because the United States, as a creditor, has the same rights as a private citizen to pursue fraudulently conveyed property, and because the transfer was deemed fraudulent under Michigan law, William was held liable as a transferee.

Practical Implications

This case clarifies the scope of transferee liability in the context of tax avoidance. It emphasizes that courts will look beyond the form of transactions to determine the true beneficial owner of assets and the intent behind transfers, particularly when family members are involved. The case illustrates the importance of state fraudulent conveyance laws in determining federal tax liability. Attorneys should advise clients that even indirect transfers or attempts to conceal assets can trigger transferee liability if the primary intent is to evade taxes. The ruling in *Wiener* serves as a reminder that actions taken to avoid paying taxes can have severe consequences, including personal liability for the tax debts of others.

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