15 T.C. 709 (1950)

Payment by a primary taxpayer of a tax deficiency, when accepted by the IRS, relieves transferees of derivative liability, even if the taxpayer later seeks a refund based on the statute of limitations.

Summary

This case addresses the liability of transferees for a corporation's tax deficiencies. The Tax Court held that if the corporation (primary taxpayer) paid a deficiency, and the IRS accepted the payment, the transferees were relieved of liability, even if the corporation later filed a claim for refund alleging the payment was made after the statute of limitations expired. However, for years where no deficiency notice was sent to the corporation and no payment accepted, the transferees remained liable, provided the other requirements for transferee liability were met (insolvency, transfer of assets).

Facts

Washington Farms, Inc. liquidated in 1942, distributing its assets to its shareholders, Quirk and Wright, who then formed a partnership. The IRS later determined tax deficiencies for the corporation for 1940, 1941, and 1942. A 30-day notice was sent to the corporation proposing these deficiencies. Wright, on behalf of the corporation, remitted a check as partial payment. Subsequently, after Wright's death, the IRS sent a deficiency notice directly to the corporation for the 1942 tax. Wright's widow, acting as president of the reactivated corporation, paid the 1942 deficiency. The corporation also filed refund claims arguing the payments were made after the statute of limitations had expired.

Procedural History

The IRS assessed transferee liability against Quirk and Wright's estate. Quirk and Wright's estate petitioned the Tax Court, arguing the corporation possessed sufficient assets to pay its tax liability. The Tax Court addressed the extent of the transferee liability, considering the corporation's payments and refund claims.

Issue(s)

1. Whether the payment by Washington Farms, Inc. of the 1942 tax deficiencies, followed by the IRS's acceptance of that payment, extinguished the transferee liability of Quirk and Wright's estate, even though the corporation later filed a claim for refund?

2. Whether Quirk and Wright's estate were liable as transferees for the 1940 and 1941 tax deficiencies of Washington Farms, Inc., given that no deficiency notice had been issued to the corporation for those years?

Holding

1. Yes, because the deficiency for 1942 was paid by the primary taxpayer, a deficiency notice was properly addressed and timely sent, and unconditional payment of these deficiencies was made in the name of the taxpayer and accepted by the collector.

2. Yes, because as to the 1940 and 1941 tax years, no deficiency notice had ever been issued to the taxpayer; no adequate waivers of the statute of limitations have been filed; no assessment of the deficiencies has ever been made; and, although remittances in the amounts claimed were received by the collector, they were not and could not be accepted by him as payment, and remained as deposits in a special account for which the evidence shows claims for refund have been filed.

Court's Reasoning

The court reasoned that for 1942, the unconditional payment by the corporation, accepted by the IRS, constituted a final payment, eliminating transferee liability. The court acknowledged the possibility of the corporation successfully suing for a refund of the 1942 taxes paid after the statute of limitations, but noted such a suit would be equitable in nature and subject to principles of unjust enrichment, citing *Stone v. White, 301 U.S. 532*. As to the 1940 and 1941 tax years, the court noted that a deficiency notice had not been issued and accepted as payment, therefore the transferees are liable. The court found the corporation was insolvent at the time of the transfer, and that the assets received exceeded the deficiencies.

Practical Implications

This case clarifies that a valid payment of a tax deficiency by the primary taxpayer eliminates transferee liability. It highlights the importance of deficiency notices and assessments in establishing tax liability. The IRS must properly assess the tax against the primary obligor to pursue transferees. Practitioners must examine whether a tax payment was actually

