27 T.C. 1014 (1957)

Life insurance proceeds can be considered "property" of the decedent-insured, making beneficiaries liable as transferees for unpaid income taxes if the decedent retained incidents of ownership, such as the right to change the beneficiary.

Summary

In *Stoumen v. Commissioner*, the U.S. Tax Court addressed whether beneficiaries of life insurance policies were liable as transferees for the insured's unpaid income taxes. The court held that where the insured retained the right to change beneficiaries, the insurance proceeds were considered the insured's property for the purposes of transferee liability under the Internal Revenue Code. The court rejected the argument that the insurance proceeds were solely the property of the insurance company or that they did not constitute assets of the deceased for purposes of determining transferee liability. The court differentiated its holding from the holding in *Rowen v. Commissioner*, taking a broader view of "property" in the context of transferee liability.

Facts

Abraham Stoumen died by suicide in 1946, leaving behind substantial unpaid income tax liabilities for the years 1943, 1944, and 1945. He had retained until his death all rights to the life insurance policies, including the right to change beneficiaries. His widow, Mary Stoumen, and his children, Kenneth, Lois, and Eileen, were beneficiaries of the policies and received the proceeds. The Commissioner of Internal Revenue determined that the beneficiaries were liable as transferees for the unpaid taxes to the extent of the insurance proceeds received. Additionally, Mary Stoumen, as executrix of the estate, received funds from a business obligation to the estate which she subsequently distributed to herself as sole heir. The Commissioner sought to hold Mary liable as a transferee for these funds as well.

Procedural History

The Commissioner determined transferee liability for the beneficiaries and the executrix for unpaid income taxes, which the beneficiaries and executrix contested in the U.S. Tax Court. The Tax Court had previously ruled on Abraham Stoumen's tax liabilities and additions to tax. The current cases involved whether the beneficiaries and the executrix were liable as transferees for the unpaid income taxes. The Tax Court found that the insurance beneficiaries were liable for the income tax liability of the decedent and the executrix was also liable.

Issue(s)

1. Whether the beneficiaries of the life insurance policies were liable as transferees for Abraham Stoumen's unpaid income taxes, additions to tax, and interest, to the

extent of the insurance proceeds received by them.

2. Whether Mary Stoumen, as sole devisee and legatee of Abraham Stoumen, was liable as a transferee for the above-mentioned taxes to the extent of money received by her as executrix of Abraham's estate and deposited in her personal bank account.

Holding

1. Yes, because Abraham Stoumen retained incidents of ownership in the life insurance policies, the proceeds were considered his property, making the beneficiaries liable as transferees.

2. Yes, because the distribution of funds from the estate to Mary as sole devisee and legatee rendered the estate insolvent.

Court's Reasoning

The court analyzed the meaning of "transferee" under Section 311 of the Internal Revenue Code, which imposes liability on transferees of property of a taxpayer. The court found that the definition of a "transferee" includes an heir, legatee, devisee, and distributee, and reasoned that because Abraham maintained the right to change beneficiaries on his life insurance policies, the insurance proceeds were essentially "property" of the decedent, for the purposes of determining transferee liability. The Court considered the intent and purpose of the insured, noting that the purpose of life insurance is to transfer assets. The court differentiated this holding from the holding in *Rowen v. Commissioner*, finding that the court in *Rowen* took too narrow a construction of the law. The court noted that Abraham's estate was rendered insolvent by the transfer of the insurance proceeds to the beneficiaries. The Court also found that Mary Stoumen was liable as a transferee for the money received by her from the liquidation of her late husband's business interest, and subsequently deposited in her own account, to the extent that the money received rendered the estate insolvent.

Practical Implications

This case provides a clear precedent for the IRS to pursue beneficiaries of life insurance policies for the unpaid income tax liabilities of the insured, provided the insured retained incidents of ownership. This means that tax attorneys must consider life insurance proceeds as potential assets subject to transferee liability. Practitioners need to carefully analyze the terms of the insurance policies, and ensure that clients are aware of the implications of naming beneficiaries when the insured has significant tax debt. This case has been cited in various later cases involving transferee liability, particularly those involving life insurance proceeds or other assets transferred shortly before death. The ruling underscores the importance of considering the totality of a decedent's assets and liabilities when dealing with tax matters, and highlights the potential for broad interpretation of transferee liability provisions. Additionally, the court's distinction from *Rowen* reinforces the need for a nuanced approach to each case, and a deep understanding of the specifics of the laws governing the various jurisdictions.

