30 T.C. 900 (1958)

The transferee liability of a life insurance beneficiary for a deceased taxpayer's unpaid income taxes is determined by state law, specifically whether state law protects the insurance proceeds from creditors.

Summary

The Commissioner of Internal Revenue sought to collect unpaid income taxes from Vernon M. Bingham, who was the beneficiary of her deceased husband's life insurance policies. The Tax Court held that Bingham was not liable as a transferee for the tax debt. Applying the Supreme Court's ruling in *Commissioner v. Stern*, the court determined that North Carolina law governed the issue. Since North Carolina law protected life insurance proceeds from creditors unless premiums were paid with fraudulent intent, and the Commissioner failed to prove such fraudulent intent, Bingham was not liable. This case underscores the importance of state law in determining transferee liability for federal tax debts when insurance proceeds are involved.

Facts

Irving W. Bingham died intestate in North Carolina, leaving unpaid federal income taxes. His wife, Vernon M. Bingham, was the beneficiary of five life insurance policies on her husband's life, which were in force at the time of his death. The net proceeds of these policies, totaling $10,175.29, were paid to Vernon Bingham. The Commissioner determined that Vernon was liable as a transferee for her husband's unpaid income taxes and additions thereto. North Carolina law exempts life insurance proceeds from claims of creditors unless premiums were paid with intent to defraud creditors.

Procedural History

The Commissioner determined a transferee liability against Vernon Bingham. The Tax Court reviewed the case after it was submitted on a stipulation of facts. The Tax Court ruled in favor of the taxpayer, and the decision was entered for the petitioner.

Issue(s)

Whether the petitioner, as the beneficiary of her deceased husband's life insurance policies, is liable as a transferee for her husband's unpaid income taxes.

Holding

No, because North Carolina law protects life insurance proceeds from creditors' claims unless premiums were paid with an intent to defraud creditors, and the Commissioner failed to demonstrate such fraudulent intent.

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Court’s Reasoning

The court relied on the Supreme Court’s decision in *Commissioner v. Stern*, which established that state law determines the liability of a transferee of property for federal income tax debts. The court examined North Carolina law, specifically Article X, Section 7 of the Constitution of North Carolina and N.C. Gen. Stat. § 58-206, to determine if the insurance proceeds were protected from creditors. The court found that North Carolina law protected the proceeds unless premiums were paid with the intent to defraud creditors. Since the Commissioner failed to prove that any premiums were paid with such intent, the court held that Vernon Bingham was not liable as a transferee. The court emphasized, “In the instant case there is no showing that any premiums were paid with the intent to defraud creditors.”

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