33 T.C. 215 (1959)

Under the rule of *Commissioner v. Stern*, local law determines the existence and extent of a transferee's liability for a taxpayer's unpaid income tax under federal law.

Summary

The Commissioner of Internal Revenue sought to hold Laura Lewis liable as a transferee for her deceased husband's unpaid income tax. The husband, a New York City employee, had designated Laura as the beneficiary of his accumulated retirement contributions. The Tax Court, applying the Supreme Court's ruling in *Commissioner v. Stern*, determined that local law—the Administrative Code of the City of New York—governed whether Laura was liable. The court found that the Code's provisions exempted the funds from claims by creditors, thus shielding Laura from the Commissioner's claim. The court emphasized that since local law protected the funds from creditors generally, the government could not reach the funds either.

Facts

Samuel Lewis, a New York City employee and member of the City's retirement system, died in 1952 before reaching retirement age. His accumulated deductions from his compensation, plus interest, totaled $10,020.54. Laura Lewis, his wife, was the designated beneficiary and received this sum. Samuel Lewis's 1951 income tax remained unpaid. The Commissioner, under Section 311 of the 1939 Internal Revenue Code, determined that Laura Lewis was liable as a transferee for the unpaid tax.

Procedural History

The Commissioner issued a notice of transferee liability to Laura Lewis. The Commissioner determined a tax deficiency against the taxpayer and sought payment from Laura Lewis. The Tax Court reviewed the Commissioner's determination of transferee liability, focusing on whether the local law of the City of New York protected the retirement funds from creditors, including the IRS.

Issue(s)

1. Whether the petitioner, as the beneficiary of her deceased husband's accumulated deductions in the New York City Employees' Retirement System, is liable for her deceased husband's unpaid income tax under the transferee provisions of the Internal Revenue Code.

2. Whether the municipal law of the City of New York, particularly section B3-50.0 of the Administrative Code, protects the retirement funds from claims by the Commissioner of Internal Revenue.

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Holding

1. No, because under New York City's Administrative Code, the petitioner is not liable for her deceased husband's unpaid income tax.

2. Yes, because section B3-50.0 of the Administrative Code protects the retirement funds from creditors' claims, including the Commissioner.

Court's Reasoning

The court applied the rule of *Commissioner v. Stern*, which established that the existence and extent of a transferee's liability for a taxpayer's unpaid income tax is determined by state or local law. The court examined the Administrative Code of the City of New York, specifically section B3-50.0, which exempts from

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