42 T.C. 593 (1964)

A corporate officer who withdraws funds from an insolvent corporation and uses them for personal purposes can be held liable as a transferee for the corporation's unpaid taxes to the extent of personal use, and these withdrawals constitute taxable income to the officer.

Summary

Henry Miller, an officer and shareholder of Goldmark Coat Co., systematically withdrew cash from the insolvent corporation, ostensibly for business expenses, but used a significant portion for personal purposes. The Tax Court addressed whether Miller's estate was liable as a transferee for Goldmark's unpaid taxes and whether these withdrawals constituted taxable income to Miller. The court held that Miller was liable as a transferee to the extent of funds used personally and that these withdrawals, along with other corporate benefits, were taxable income. The court also upheld the disallowance of certain deductions claimed by Miller and found the statute of limitations did not bar assessment for certain years due to substantial income omissions.

Facts

Goldmark Coat Co., Inc., was incorporated in 1947 and became insolvent by March 1, 1951. Henry Miller, a 50% shareholder and treasurer, regularly had the company bookkeeper issue checks payable to cash. Miller received the cash proceeds, purportedly for company expenses, but a portion was used for his personal benefit. These cash withdrawals were charged to various expense accounts of Goldmark. Goldmark also paid for Miller's car garaging and provided him with a Jaguar for personal use. Miller deducted various personal expenses on his tax returns, some of which were disallowed by the IRS. Goldmark ceased operations by December 31, 1956, and had no assets by January 1957.

Procedural History

The Commissioner of Internal Revenue determined transferee liability against Henry Miller for Goldmark's unpaid income taxes and deficiencies in Miller's personal income taxes for 1952-1956. Following Miller's death, his estate was substituted as petitioner. The Tax Court consolidated cases related to Miller's estate, Goldmark, and another shareholder. Goldmark's tax liabilities were settled separately. The Tax Court then heard the case regarding Miller's transferee liability and personal income tax deficiencies.

Issue(s)

1. Whether Miller's estate is liable as a transferee of Goldmark for the corporation's unpaid income taxes.
2. Whether certain distributions Miller received from Goldmark and benefits like

car garaging and use of a Jaguar constituted gross income to Miller.
3. Whether Miller was entitled to various deductions claimed on his personal income tax returns.
4. Whether the statute of limitations barred assessment and collection of deficiencies for 1952 and 1953.

Holding

1. Yes, Miller's estate is liable as a transferee because Miller received funds from the insolvent Goldmark without consideration, which constituted fraudulent conveyances under New York law, to the extent the funds were used for personal purposes.
2. Yes, the cash distributions and benefits (car garaging, Jaguar use) constituted gross income to Miller because they were economic benefits derived from the corporation.
3. No, Miller's estate did not prove error in the Commissioner's disallowance of certain deductions for travel and entertainment, interest, contributions, dependency exemptions, and alimony, except for a portion of interest and alimony which were allowed.
4. No, the statute of limitations did not bar assessment for 1952 and 1953 because Miller omitted income exceeding 25% of his reported gross income for those years.

Court's Reasoning

Transferee Liability: The court applied New York state law on fraudulent conveyances, as established in *Commissioner v. Stern*, to determine transferee liability. Under New York Debt. & Cred. Law Sec. 273, conveyances by an insolvent debtor without fair consideration are fraudulent. The court found Goldmark was insolvent and Miller provided no consideration for the cash withdrawals. Miller's use of a portion of the withdrawn cash for personal purposes constituted a fraudulent conveyance. The court noted, "*If there are here found to have been fraudulent conveyances or transfers by Goldmark to Miller, then the U.S. Government as one of Goldmark's creditors, can properly proceed against the estate of Miller, the transferee…*" Since Goldmark was insolvent and attempts to collect from it would be futile, Miller was held liable as a transferee up to the amount of Goldmark's unpaid taxes and the value of assets fraudulently transferred.

Income Inclusion: The court held that the cash withdrawals and corporate benefits were taxable income to Miller. Citing *Healy v. Commissioner* and *Bennett E. Meyers*, the court reasoned these were economic benefits and accessions to wealth. The court stated, "*We hold that the amounts of said cash distributions and the value of said additional benefits constituted gross income to Miller for the respective years in which the same were received by him.*"

Deductions: The court upheld the Commissioner's disallowances because Miller's estate failed to provide evidence substantiating the claimed deductions. Regarding alimony, the court found insufficient evidence to overturn the disallowance, even considering the potential relevance of *Commissioner v. Lester*, as the estate did not provide the divorce decree or proof of payment.

Statute of Limitations: Section 275(c) of the 1939 Code allows for an extended statute of limitations if a taxpayer omits more than 25% of gross income. The court found Miller's unreported income exceeded this threshold for 1952 and 1953, thus assessment was not time-barred.

Practical Implications

Miller v. Commissioner is a significant case for understanding transferee liability in the context of corporate officers and shareholders, particularly in closely held corporations. It clarifies that personal use of corporate funds, especially from an insolvent entity, can lead to both transferee liability for corporate taxes and income inclusion for the individual. This case emphasizes the importance of proper documentation for corporate expenses and the tax consequences of shareholder-officer dealings. It serves as a reminder that withdrawals from a corporation, even if initially characterized as business expenses, can be reclassified as constructive dividends or fraudulent conveyances if used personally, especially when the corporation is insolvent. Later cases have cited *Miller* to reinforce the principles of transferee liability and the broad definition of income to include economic benefits derived from improper corporate distributions. This case is crucial for tax practitioners advising clients on corporate compliance, shareholder distributions, and potential transferee liability issues.

