Nutter v. Commissioner, 54 T. C. 290, 1970 U. S. Tax Ct. LEXIS 212 (1970)

Transferee liability under IRC § 6901 for unpaid taxes requires a fraudulent transfer under applicable state law, which was not established in this case.

Summary

In Nutter v. Commissioner, the IRS attempted to hold Jack and Jane Nutter liable as transferees for an insolvent corporation's unpaid taxes, claiming a transfer of land was fraudulent. The Nutters had released a mortgage on the corporation's assets in exchange for an 80-acre parcel, which they intended as partial payment of the corporation's debt to them. The Tax Court held that the transfer was not fraudulent under Arizona law because the Nutters provided fair consideration for the land and there was no intent to defraud creditors. The decision underscores the necessity of proving fraudulent intent under state law to establish transferee liability for federal taxes.

Facts

The Nutters owned and controlled Pinal County Land Co. , which was insolvent as of January 31, 1962. The company was indebted to the Nutters for over $100,000, secured by a mortgage on all its real estate. On March 27, 1962, Land Co. agreed to sell all its real estate to Bing Wong Farms in exchange for cash and an 80-acre parcel. To clear the title, the Nutters released their mortgage on April 3, 1962, intending to receive the parcel as partial payment of the debt. The parcel was transferred to the Nutters on June 26, 1962, valued at $100,000. Land Co. 's accountant did not reflect this transfer or debt satisfaction on its books until 1964. The IRS sought to hold the Nutters liable as transferees for Land Co. 's unpaid 1963 income taxes, alleging the transfer was fraudulent.

Procedural History

The Commissioner asserted transferee liability against the Nutters under IRC § 6901 for Land Co. 's 1963 income tax deficiency. The Nutters contested this in the U. S. Tax Court, which consolidated their cases. The Tax Court's decision focused solely on whether the transfer was fraudulent under Arizona law, as this was the key to establishing transferee liability.

Issue(s)

1. Whether the transfer of the 80-acre parcel from Land Co. to the Nutters constituted a fraudulent conveyance under Arizona Revised Statutes §§ 44-1004, 44-1005, or 44-1007, thereby establishing transferee liability under IRC § 6901.

Holding

1. No, because the Nutters provided fair consideration for the transfer and there

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was no actual intent to defraud creditors under Arizona law.

Court's Reasoning

The court reasoned that under IRC § 6901, transferee liability is determined by applicable state law, here Arizona's fraudulent conveyance statutes. The court found that the Nutters gave fair consideration for the 80-acre parcel, as it was intended as partial payment of Land Co. 's valid debt to them. The court emphasized that the Nutters' release of the mortgage was not to defraud creditors but to facilitate Land Co. 's sale of its assets, with the Nutters receiving their "equity" in the company after other creditors were paid. The court noted that the Nutters' secured creditor status already gave them priority over the IRS's claim for taxes. The court rejected the Commissioner's argument of fraudulent intent, finding no evidence that the Nutters intended to hinder, delay, or defraud creditors. The court cited Commissioner v. Stern and United States v. Guaranty Trust Co. to support its analysis of transferee liability and secured creditor rights.

Practical Implications

This decision clarifies that transferee liability under IRC § 6901 requires a showing of fraudulent transfer under state law. Practitioners should be aware that releasing a mortgage in exchange for assets as part of a corporate transaction does not automatically constitute fraud if fair consideration is given and there is no intent to defraud creditors. The case also highlights the importance of proper accounting and record-keeping, as Land Co. 's failure to reflect the transfer on its books until later could have complicated the analysis. Subsequent cases, such as Commissioner v. Stern, have continued to apply this principle, emphasizing the need for the IRS to prove fraudulent intent under state law to impose transferee liability. This ruling impacts how tax professionals should approach cases involving corporate insolvency and asset transfers, ensuring they consider both federal and state law implications.

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