Hine v. Commissioner, 54 T. C. 1552 (1970)

A shareholder receiving assets in a corporate liquidation can be liable as a transferee for the corporation's unpaid taxes at the time of distribution, but not for taxes resulting from erroneous refunds post-distribution.

Summary

Francis Hine received assets from Colonial Boat Works, Inc. , during its liquidation. The IRS sought to hold Hine liable as a transferee for Colonial's unpaid taxes. The court held Hine liable for $17,802. 68 in taxes owed by Colonial at the time of asset distribution but not for additional deficiencies resulting from erroneous refunds issued after the liquidation. This ruling clarifies that transferee liability does not extend to post-distribution tax liabilities created by subsequent IRS actions.

Facts

Francis Hine, the sole shareholder of Colonial Boat Works, Inc. , received a liquidating distribution of $55,200 in February 1960. At that time, Colonial had an unpaid tax liability of $17,802. 68 for its fiscal year ending September 30, 1959. United Marine, Inc. , had purchased Colonial's assets and assumed its liabilities, including the tax liability. However, Colonial filed a return for a short period ending December 21, 1959, claiming a loss carryback, resulting in erroneous refunds in October 1960. These refunds were deposited into United Marine's account without Hine's knowledge.

Procedural History

The IRS determined deficiencies against Colonial due to the erroneous refunds and sought to collect these from Hine as a transferee. Hine petitioned the U. S. Tax Court, which heard the case and issued its decision on July 30, 1970.

Issue(s)

1. Whether Hine is liable as a transferee for the $17,802. 68 in Federal income tax of Colonial unpaid at the time of the liquidating distribution.
2. Whether Hine is liable as a transferee for deficiencies resulting from erroneous refunds issued after the liquidating distribution.

Holding

1. Yes, because Hine received assets in excess of the tax liability at the time of the distribution, making him liable for the $17,802. 68 plus interest as a transferee.
2. No, because the deficiencies arose from erroneous refunds after the distribution, and Hine had no knowledge or receipt of these funds.

Court's Reasoning

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The court applied the principle that a shareholder receiving assets in a corporate liquidation can be liable as a transferee for the corporation's existing debts, including taxes. It cited *Grand Rapids National Bank* and *J. Warren Leach* to support this view. The court rejected Hine's argument that United Marine's assumption of Colonial's tax liability should be considered an asset, as this obligation was distributed to Hine along with the cash. For the second issue, the court relied on *Kelley v. United States* and *Elaine Yagoda*, ruling that a tax once paid cannot be reinstated as a liability by a subsequent erroneous refund. Since the erroneous refunds occurred after Hine's receipt of assets and without his knowledge, he was not liable for the resulting deficiencies.

Practical Implications

This decision clarifies that transferee liability in corporate liquidations extends only to debts existing at the time of asset distribution. It informs practitioners that shareholders cannot be held liable for tax deficiencies arising from IRS actions post-distribution, particularly if they had no knowledge or benefit from any erroneous refunds. The ruling impacts how attorneys should advise clients in corporate liquidations, emphasizing the importance of ensuring all known tax liabilities are addressed before final distributions. It also affects the IRS's approach to collecting taxes from transferees, requiring them to focus on pre-distribution liabilities.

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