Dillman v. Commissioner, 64 T. C. 797 (1975)

State corporate dissolution statutes do not limit the IRS's ability to assess and collect taxes from transferees of a dissolved corporation under federal law.

Summary

In Dillman v. Commissioner, the U. S. Tax Court ruled that Wisconsin's corporate dissolution statute, which provides for a two-year period for pursuing claims against a dissolved corporation or its shareholders, does not bar the IRS from assessing transferee liability against shareholders of a dissolved corporation for unpaid corporate taxes. The court found that federal law governs the procedure and timing for assessing transferee liability, and state statutes cannot interfere with this authority. The case involved Bruce and Blair Dillman, who received assets from the dissolved Dillman Bros. Asphalt Co. , Inc. The IRS issued notices of transferee liability more than two years after the corporation's dissolution but within one year after the expiration of the period for assessing tax against the corporation. The court denied the Dillmans' motions for summary judgment, affirming the IRS's authority to proceed against them as transferees.

Facts

Dillman Bros. Asphalt Co. , Inc. , a Wisconsin corporation, was dissolved on February 17, 1970, after distributing all its assets to its shareholders, Bruce and Blair Dillman, each receiving over $70,900. 55. The IRS later determined deficiencies in the corporation's income tax for 1966 and 1969 and issued notices of transferee liability to Bruce and Blair Dillman on March 13, 1974, more than four years after the corporation's dissolution but within one year after the expiration of the period for assessing the tax against the corporation.

Procedural History

The Dillmans filed motions for summary judgment in the U. S. Tax Court, arguing that Wisconsin Statutes section 180. 787 barred the IRS from assessing transferee liability against them. The Tax Court consolidated the cases and heard the motions, ultimately denying them and ruling in favor of the IRS's authority to assess transferee liability.

Issue(s)

1. Whether Wisconsin Statutes section 180. 787, providing for a two-year period for pursuing claims against a dissolved corporation or its shareholders, bars the IRS from assessing transferee liability against shareholders more than two years after dissolution.
2. Whether the same statute relieves shareholders of transferee liability for unpaid corporate taxes.

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Holding

1. No, because the IRS's authority to assess transferee liability is derived solely from federal statutes, and state statutes cannot limit this authority.
2. No, because the Wisconsin statute does not abrogate or absolve the liability of shareholders as transferees; it merely extends remedies against them for a limited time.

Court's Reasoning

The court reasoned that the IRS's authority to assess transferee liability comes from section 6901 of the Internal Revenue Code, which provides a summary procedure for collecting taxes from transferees and sets its own timetable for such assessments. The court cited Commissioner v. Stern, 357 U. S. 39 (1958), to emphasize that federal law determines the procedure for assessing transferee liability, while state law governs the substantive liability of transferees. The Wisconsin statute was interpreted as extending the remedies available against a dissolved corporation or its shareholders, not as limiting the IRS's authority to assess transferee liability. The court also noted that the IRS's claim against the transferees was an action in rem, not extinguished by the corporation's dissolution, and that federal law allows the IRS to pursue such claims within one year after the expiration of the period for assessing tax against the corporation.

Practical Implications

This decision clarifies that state corporate dissolution statutes cannot limit the IRS's ability to assess and collect taxes from transferees of a dissolved corporation. Practitioners should be aware that federal law governs the procedure and timing for assessing transferee liability, and state statutes that attempt to limit this authority will not be binding on the IRS. This ruling may encourage the IRS to pursue transferee liability more aggressively, as it removes a potential defense based on state law. Businesses and shareholders should be cautious about dissolving corporations with outstanding tax liabilities, as they may still be held liable as transferees even after the state's statutory period for pursuing claims has expired. This case has been cited in subsequent decisions, such as United States v. Kimbell Foods, Inc. , 440 U. S. 715 (1979), which reaffirmed the principle that federal law governs the IRS's ability to collect taxes from transferees.

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