Beilin v. Commissioner, 65 T. C. 692 (1976)

Transferees of corporate assets can be held liable for the transferor's tax debts under IRC Section 6901 if they agree to such liability and the value of the assets received exceeds the tax liability.

Summary

In Beilin v. Commissioner, the Tax Court held that petitioners, who purchased and liquidated Hamilton Homes, Inc. , were liable as transferees for the corporation's tax deficiencies. The court found that the petitioners' execution of a Transferee Agreement and the value of assets received from the corporation established their liability at law under IRC Section 6901. The petitioners' attempt to retransfer the assets to another entity did not relieve them of liability since the transferor no longer existed and the retransfer did not restore the transferor's creditors to their original position.

Facts

Benjamin and Lillian Beilin and Meyer and Eva Thomas (petitioners) purchased all the stock of Hamilton Homes, Inc. for $800,000 on May 29, 1970. They immediately liquidated the corporation, receiving its assets, including a hotel valued at $800,000. The corporation had unpaid tax liabilities for the fiscal years ending February 28, 1969, February 28, 1970, and the period from March 1, 1970, to May 29, 1970. Petitioners executed a Transferee Agreement (Form 2045) on December 14, 1971, agreeing to assume the transferor's tax liabilities. After receiving a 30-day letter from the IRS proposing deficiencies, petitioners transferred the assets to Gurwicz "N" Corp. , owned by the original sellers, on February 8, 1973, and March 6, 1973.

Procedural History

The IRS determined deficiencies and additions to tax against Hamilton Homes, Inc. , and subsequently assessed these against the petitioners as transferees. The petitioners filed a petition with the Tax Court seeking redetermination of their transferee liability. The IRS responded with an amended answer, and the case was decided based on stipulated facts.

Issue(s)

1. Whether the petitioners are liable as transferees at law for the transferor's tax deficiencies under IRC Section 6901.
2. Whether the petitioners' retransfer of the assets to another entity relieved them of transferee liability.

Holding

1. Yes, because the petitioners executed a Transferee Agreement and the value of

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the assets they received exceeded the transferor's tax liability.
2. No, because the retransfer did not restore the transferor's creditors to their original position and occurred after the petitioners were on notice of potential liability.

Court's Reasoning

The court applied IRC Section 6901, which allows the IRS to collect tax from a transferee to the extent of their liability at law or in equity. The court found that the petitioners' execution of the Transferee Agreement established their liability at law, as it was supported by the IRS's forbearance from issuing a statutory notice of deficiency against the transferor. The court also noted that the petitioners stipulated to the transferor's liability and the value of the assets received, which exceeded the tax deficiencies. The court rejected the petitioners' argument that retransferring the assets to Gurwicz "N" Corp. relieved them of liability, citing that such a retransfer did not place the transferor's creditors in their original position and occurred after the petitioners received notice of potential liability through the 30-day letter. The court referenced cases like Coca-Cola Bottling Co. of Tucson, Inc. and Phillips v. Commissioner to support its decision. The court also discussed the trust fund theory under New Jersey law, which supports holding transferees liable for corporate debts to the extent of the assets received.

Practical Implications

This case clarifies that transferees who agree to assume a transferor's tax liabilities under IRC Section 6901 can be held liable if the value of the assets received exceeds the tax debt. It underscores the importance of understanding the full extent of potential liabilities when acquiring corporate assets. The decision also highlights that retransferring assets to another entity does not automatically relieve transferees of liability if it does not restore the transferor's creditors to their original position. This ruling impacts how attorneys should advise clients on the risks of assuming transferee liability and the implications of retransferring assets. It may also influence how businesses structure asset purchases and liquidations to mitigate potential tax liabilities. Subsequent cases have cited Beilin in discussions of transferee liability, reinforcing its significance in tax law.

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