Hagaman v. Commissioner, 100 T. C. 180 (1993)

Transferee liability under section 6901 does not require proving transferor's insolvency if state law does not require it for fraudulent conveyances.

Summary

Shirley Hagaman received gifts totaling $263,000 from her partner, William Hagaman, during a period when William owed significant tax liabilities. The IRS sought to collect these taxes from Shirley as a transferee, asserting that the transfers were fraudulent under applicable state law. The court held that under both Tennessee and Florida law, the transfers were presumed fraudulent due to their voluntary nature and the close relationship between the parties, despite the lack of evidence regarding William's insolvency. Shirley's subsequent retransfers to William did not relieve her of liability because they were made for fair consideration. The court thus upheld Shirley's liability as a transferee to the extent of the assets transferred.

Facts

William Hagaman and Shirley Hagaman began a relationship in 1976 or 1977. William transferred various assets to Shirley, including a diamond ring, fur coats, stocks, cash, a Florida residence, and furniture, totaling $263,000, without any consideration. These transfers occurred between 1979 and 1986. William was found liable for tax deficiencies and fraud penalties for the years 1975-1978, and these liabilities remained unpaid. Shirley and William married in 1987, entered into a postnuptial agreement, and later exchanged property interests. They separated in 1989, and their separation agreement involved retransferring certain properties. The IRS made jeopardy assessments against both, but the transferee assessment against Shirley was later abated.

Procedural History

The IRS determined deficiencies and fraud penalties against William Hagaman for the years 1975-1978. After unsuccessful attempts to collect from William, the IRS sought to hold Shirley liable as a transferee under section 6901 of the Internal Revenue Code. The Tax Court reviewed the case to determine whether Shirley was liable as a transferee for the value of the assets transferred to her by William.

Issue(s)

1. Whether Shirley Hagaman is liable as a transferee for the value of the assets transferred to her by William Hagaman under section 6901 of the Internal Revenue Code.
2. Whether the IRS must prove William Hagaman's insolvency at the time of the transfers to hold Shirley liable as a transferee.
3. Whether subsequent retransfers from Shirley to William relieve her of transferee

liability.

Holding

1. Yes, because the transfers were presumed fraudulent under applicable state law due to their voluntary nature and the close relationship between Shirley and William.
2. No, because state law did not require proof of insolvency for the transfers to be deemed fraudulent.
3. No, because the retransfers were made for fair consideration and did not return Shirley and William to their pre-transfer economic positions.

Court's Reasoning

The court applied the Uniform Fraudulent Conveyances Act (UFCA) as adopted by Tennessee and Florida, the relevant states for the transfers. Under UFCA, a transfer made with the intent to hinder, delay, or defraud creditors is void. Both Tennessee and Florida law presume fraudulent intent for voluntary transfers between closely related parties, without requiring proof of the transferor's insolvency. The court found that Shirley failed to rebut this presumption, thus establishing her liability as a transferee under section 6901. The court also referenced the case of *Ginsberg v. Commissioner*, stating that retransfers do not relieve transferee liability if they are made for fair consideration, as they did not restore the parties to their original economic positions.

Practical Implications

This decision clarifies that the IRS need not prove a transferor's insolvency to establish transferee liability under section 6901 if state law does not require it. Practitioners should be aware that the specific state law governing the transfer's location determines the criteria for fraudulent conveyances. When analyzing similar cases, attorneys should focus on the nature of the transfer and the relationship between the parties, as these factors can create presumptions of fraud. Businesses and individuals should be cautious about transferring assets without consideration, especially to close relatives, as such transfers may be challenged as fraudulent under state law. This ruling has been applied in subsequent cases involving transferee liability, emphasizing the importance of state fraudulent conveyance laws in federal tax collection efforts.