Stansbury v. Commissioner, 104 T. C. 486 (1995)

State law governs the liability of a transferee for interest on taxes prior to the issuance of a notice of transferee liability when the value of assets transferred is less than the tax liability of the transferor.

Summary

In Stansbury v. Commissioner, the Tax Court ruled that the liability of transferees, Doris and Leland Stansbury, for interest on the tax debts of ABC Real Estate, Inc. , prior to the issuance of a notice of transferee liability, was to be determined under Colorado state law. The Stansburys, who were the sole shareholders and officers of ABC, received assets from the company after it agreed to tax assessments but before payment. The court held that the transfer constituted a 'wrongful withholding' under Colorado law, making the Stansburys liable for interest at the state statutory rate from the date of the transfer until the notice was issued. This decision underscores the application of state law in determining the extent of transferee liability for pre-notice interest when the transferred assets are insufficient to cover the transferor's tax liability.

Facts

ABC Real Estate, Inc. , a Colorado corporation owned and operated by Doris and Leland Stansbury, agreed to assessments of tax deficiencies and penalties for the years 1980 through 1984. Despite this agreement, ABC transferred its remaining assets to the Stansburys in October 1986, without making any payments on the assessed taxes. The Stansburys conceded their liability as transferees for the value of the assets received but disputed their liability for interest before the issuance of the notice of transferee liability on January 2, 1992.

Procedural History

The IRS assessed the agreed tax liabilities against ABC on June 30, 1986. After ABC's transfer of assets to the Stansburys, the IRS filed notices of federal tax liens against ABC's property. The Stansburys and ABC filed for bankruptcy protection in 1987, but both cases were dismissed without discharge. The IRS then issued notices of transferee liability to the Stansburys in January 1992. The case was brought before the U. S. Tax Court to determine the Stansburys' liability for interest prior to the notices.

Issue(s)

1. Whether the Stansburys are liable for interest on the tax deficiencies of ABC Real Estate, Inc. , for the period prior to the issuance of the notices of transferee liability under federal or state law?
2. If state law applies, whether the Stansburys' receipt of ABC's assets constituted a 'wrongful withholding' under Colorado law, and thus, whether they are liable for

© 2025 SCOTUSreports.com. All rights reserved.

interest from the date of the transfers?

Holding

1. No, because federal law does not define the substantive liability of transferees for interest prior to the notice of transferee liability; state law governs this determination.
2. Yes, because the Stansburys' receipt of ABC's assets constituted a 'wrongful withholding' under Colorado law, making them liable for interest from the date of the transfers at the statutory rate of 8% per annum.

Court's Reasoning

The court relied on the Supreme Court's decision in *Commissioner v. Stern*, which established that state law determines the substantive liability of transferees. The court rejected the Stansburys' reliance on *Voss v. Wiseman*, a Tenth Circuit decision that predated *Stern* and did not consider state law. The court found that the Stansburys' actions, as 100% shareholders and officers of ABC, constituted a 'wrongful withholding' under Colorado Revised Statute section 5-12-102, as they were aware of ABC's tax liabilities and caused the transfer of assets in contravention of the IRS's collection efforts. The court also determined that the transfers were fraudulent under Colorado law, as they were intended to hinder the IRS's recovery. The rate of interest was set at the statutory 8% per annum under Colorado law, as the IRS failed to prove any actual gain or benefit realized by the Stansburys from their use of the transferred assets.

Practical Implications

This decision clarifies that state law governs the liability of transferees for pre-notice interest when the value of the transferred assets is less than the tax liability of the transferor. Practitioners should be aware that, in such cases, the IRS must look to state law to determine the existence and extent of transferee liability for interest. The ruling emphasizes the importance of understanding state laws regarding wrongful withholding and fraudulent conveyance when dealing with transferee liability cases. It also highlights the need for the IRS to prove actual gain or benefit to the transferee to impose a higher interest rate than the statutory rate under state law. Subsequent cases, such as *Estate of Stein v. Commissioner*, have followed this approach, reinforcing the application of state law in determining transferee liability for pre-notice interest.

© 2025 SCOTUSreports.com. All rights reserved.