Bresson v. Commissioner, T. C. Memo. 1998-453

Federal transferee liability for taxes is not bound by state statutes of limitations or extinguishment provisions.

Summary

In Bresson v. Commissioner, the Tax Court held that the IRS could assess transferee liability against Peter Bresson for taxes owed by Jaussaud Enterprises, Inc. , despite California's Uniform Fraudulent Transfer Act (UFTA) limitations period having expired. The court found that Bresson received property from the corporation without providing reasonably equivalent value, constituting a fraudulent transfer under California law. However, the court ruled that the federal limitations period for assessing transferee liability under IRC § 6901(c) controlled, not the state UFTA limitations. This decision reinforces the principle that federal tax collection efforts are not constrained by state time limits, even when relying on state law to establish the underlying fraudulent transfer.

Facts

Jaussaud Enterprises, Inc. , owned by Peter Bresson, transferred real property to Bresson in 1990, which he then sold to a third party. The corporation reported a capital gain from the sale but did not pay the resulting taxes. Bresson executed a promissory note to the corporation three years later, but the court found this did not represent equivalent value for the transfer. The IRS issued a notice of transferee liability to Bresson in 1996, after the California UFTA limitations period had expired.

Procedural History

The IRS assessed taxes against Jaussaud Enterprises for the year ended February 28, 1991, and issued a notice of transferee liability to Bresson on August 2, 1996. Bresson petitioned the Tax Court, arguing that the California UFTA limitations period barred the assessment. The Tax Court held for the Commissioner, finding the federal limitations period applicable.

Issue(s)

1. Whether the transfer of property from Jaussaud Enterprises to Bresson constituted a fraudulent conveyance under California's UFTA.
2. Whether the federal limitations period under IRC § 6901(c) or the California UFTA limitations period applied to the IRS's assessment of transferee liability against Bresson.

Holding

1. Yes, because the transfer was made without the corporation receiving reasonably equivalent value, satisfying the requirements for constructive fraud under California

Civil Code § 3439. 04(b)(1) and/or (2).
2. No, because the federal limitations period under IRC § 6901(c) controls the assessment of transferee liability, not the California UFTA limitations period.

Court's Reasoning

The court applied California law to determine the existence of a fraudulent conveyance, finding that Jaussaud Enterprises received no value for the property transfer to Bresson. The court rejected Bresson's argument that the promissory note he executed three years later constituted equivalent value. Regarding the limitations period, the court relied on the Supreme Court's decision in United States v. Summerlin, holding that federal tax collection efforts are not bound by state statutes of limitations or extinguishment provisions. The court distinguished United States v. Vellalos, noting that the IRS timely proceeded under IRC § 6901 in this case, unlike in Vellalos where the federal limitations period had expired. The court emphasized that federal revenue law requires national application and cannot be displaced by variations in state law.

Practical Implications

This decision clarifies that the IRS may assess transferee liability for federal taxes even when state fraudulent transfer limitations periods have expired. Practitioners should be aware that state law may establish the existence of a fraudulent transfer, but federal law determines the limitations period for assessing transferee liability. This ruling may encourage the IRS to pursue transferee liability claims even when state limitations periods have run, as long as the federal period under IRC § 6901(c) remains open. The decision also highlights the importance of ensuring that corporate distributions are properly documented and supported by equivalent value to avoid potential fraudulent transfer claims.

