Johnson v. Commissioner, 118 T. C. 74 (U. S. Tax Court 2002)

In Johnson v. Commissioner, the U. S. Tax Court ruled that Larry D. Johnson, the sole shareholder and president of Johnson Consolidated Cos. , Inc. , was not liable as a transferee for the company's unpaid federal income taxes. The court found that a $286,737 payment Johnson received from the company's settlement with a creditor was in satisfaction of an antecedent debt, and thus constituted adequate consideration under Texas law. This decision clarifies the application of the Texas Uniform Fraudulent Transfer Act in assessing transferee liability, particularly in cases involving corporate insiders.

Parties

Larry D. Johnson, as Petitioner and Transferee, against the Commissioner of Internal Revenue, as Respondent. At the trial level, Johnson was the plaintiff and the Commissioner was the defendant. On appeal, the same designations were maintained.

Facts

Larry D. Johnson was the 100% owner, president, and sole director of Johnson Consolidated Cos. , Inc. (JCC), a Texas corporation involved in real estate development. JCC and its subsidiaries, including LDJ Construction Co. and LDJ Development Co. , entered into a joint venture called West Mill Joint Venture to develop the Towne Lake project. In 1991, West Mill defaulted on a $52. 5 million loan from Westinghouse Credit Corp. , which Johnson and JCC had guaranteed. A settlement agreement was reached, under which Westinghouse paid $1,050,000 to JCC, which was then distributed to various entities and individuals, including a payment of $286,737 to Johnson. At the time of the transfer, JCC was insolvent and had not filed its tax returns for several years, resulting in an unpaid alternative minimum tax of $57,004 for its fiscal year ending June 30, 1989. Johnson claimed the payment he received was in satisfaction of an antecedent debt owed to him by JCC.

Procedural History

The Commissioner issued a notice of liability to Johnson, determining he was liable as a transferee for JCC's unpaid federal income tax, additions to tax, and interest. Johnson petitioned the U. S. Tax Court for review. The Tax Court held a trial and considered the issue of whether Johnson was a transferee liable for JCC's tax liabilities under the Texas Uniform Fraudulent Transfer Act (TUFTA). The standard of review applied was de novo, as the Tax Court had jurisdiction to determine the factual and legal issues anew.

Issue(s)

Whether the $286,737 payment received by Johnson from JCC constituted a transfer

© 2025 SCOTUSreports.com. All rights reserved.

of JCC’s assets subject to transferee liability under TUFTA?

Whether the transfer of $286,737 from JCC to Johnson was for adequate consideration, thus exempting Johnson from transferee liability under TUFTA?

Rule(s) of Law

Under 26 U. S. C. § 6901, the Commissioner may collect a transferor’s unpaid tax liability from a transferee if there is a basis under applicable state law for holding the transferee liable. Under the Texas Uniform Fraudulent Transfer Act (TUFTA), a transfer is fraudulent as to a creditor if: (1) the transferor makes a transfer to a transferee; (2) the creditor has a claim against the transferor before the transfer is made; (3) the transferor makes the transfer without receiving reasonably equivalent value; and (4) the transferor is insolvent at the time of the transfer or is rendered insolvent as a result of the transfer. Tex. Bus. & Com. Code Ann. § 24. 006(a). However, a transfer is not fraudulent if it was made in good faith in the ordinary course of business or financial affairs between the transferor and an insider. Tex. Bus. & Com. Code Ann. § 24. 009(f)(2).

Holding

The U. S. Tax Court held that the $286,737 payment received by Johnson was a transfer of JCC’s assets, but that the transfer was for adequate consideration because it satisfied an antecedent debt owed to Johnson by JCC. As such, Johnson was not liable as a transferee for JCC’s unpaid federal income tax liabilities.

Reasoning

The court first determined that the $1,050,000 settlement payment was JCC’s property, as evidenced by the settlement agreement and the fact that JCC deposited and distributed the funds. The court rejected Johnson’s argument that part of the settlement was due to him individually for damages to his business reputation, finding no evidence to support this claim.

Next, the court considered whether the transfer to Johnson was for adequate consideration. The court found that Johnson had regularly advanced funds to JCC and its subsidiaries, and that at the time of the transfer, there was an antecedent debt owed to him. The court noted that Johnson had reported interest income from JCC on his tax returns, which supported the existence of a debt. The court concluded that the $286,737 payment satisfied this antecedent debt and was thus adequate consideration under TUFTA.

The court then addressed the Commissioner’s argument that the transfer was fraudulent under TUFTA § 24. 006(b) because Johnson was an insider and knew of JCC’s insolvency. However, the court found that the transfer was made in good faith and in the ordinary course of business between Johnson and JCC, as evidenced by their regular practice of advancing and repaying funds. Therefore, the transfer was

© 2025 SCOTUSreports.com. All rights reserved.

excepted from liability under TUFTA § 24. 009(f)(2).

The court's reasoning was based on a careful analysis of the applicable legal tests under TUFTA, the policy of preventing fraudulent transfers while allowing for legitimate business transactions, and the factual evidence presented at trial. The court's decision was consistent with prior case law and statutory interpretation under Texas law.

Disposition

The U. S. Tax Court entered a decision in favor of Johnson, holding that he was not liable as a transferee for JCC's unpaid federal income tax liabilities.

Significance/Impact

Johnson v. Commissioner is significant for its application of the Texas Uniform Fraudulent Transfer Act in the context of transferee liability for federal income taxes. The decision clarifies that a transfer to an insider can be for adequate consideration if it satisfies an antecedent debt, even if the transferor is insolvent at the time of the transfer. This ruling may impact how courts assess transferee liability in cases involving corporate insiders and complex corporate structures. The decision also underscores the importance of factual evidence in establishing the existence of an antecedent debt and the good faith nature of a transfer. Subsequent courts have cited this case in analyzing similar issues under state fraudulent transfer laws.

© 2025 SCOTUSreports.com. All rights reserved.