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**From:**

**Sent:** 9/29/2008

**To:**

**Cc:**

**Subject:** FW: Transferee Interest;

Hi-- had asked me to get back to you on your follow-up questions, since is on vacation. I'm not that familiar with transferee liability, and I am somewhat confused by the way designates the 3 different periods below. This is how it makes sense to me: I think rather than classifying by the first 2 time periods the first inquiry should be whether the value of the property transferred exceeds the tax liability.

1. The amount of transferee liability is limited to the value of the property. So if the property value exceeds the tax liability, interest and penalties can be collected from the transferee as they accrue against the transferor per 6601 (e.g., from date return is due).
2. If the property value is less than the tax liability, we've "exhausted the value" of the transferred property and can't collect the 6601 interest accruing against the unpaid liability of the transferor. However, we may be able to collect interest under state law for the "use" of transferred assets from the time of transfer, or state law may also allow us to continue to collect interest at some point after we've "exhausted the value" for purposes of collecting 6601 interest.
3. The third period of interest then is the 6601 interest that accrues on the transferee liability assessment against the transferee. At this point, the liability no longer has anything to do with the value of the property transferred or state law. We are just collecting interest under the IRC accruing on an unpaid assessment, as we would against any taxpayer.

So to address your follow-up questions:

1. I don't think the timing of the transfer in your scenario is significant--rather the value of the property vis-a-vis the tax liability is determinative. If the transfer is before the return due date, interest under 6601 does not start to accrue until that date against the transferor. But with respect to collecting from the transferee--if the property value is less than the tax liability, we can't collect the 6601 interest and accruals. We may be able to collect interest under state law. If the property value exceeds the tax liability, we can collect the section 6601 interest and accruals up until the property value.
2. The third period is addressed in e-mail--interest begins to accrue on the transferee assessment on the date of assessment and notice and demand for payment (generally, same day).

There is not exactly a "gap" in interest accrual; it keeps accruing against the transferor as long as the liability remains unpaid. But the amount of transferee liability can be capped at that exhaustion point (whenever the liability plus accruals reaches the property value amount). Then when the liability amount is assessed against the transferee, interest will begin to accrue on the new assessment.

Please let me know if you wish to discuss further. Thanks.