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From:

Sent: Tuesday, November 25, 2008 2:49:30 PM

To:

Cc:

Subject: Transferee interest;

Transferee interest;

A. The training manual on transferees, Lesson 17, is for the GL-1 Basic School and the questions you are posing about interest are more advanced.

B. The three periods I described in my September 16 email confused because there may be some overlap. I'll try to simplify it. Interest under 6601 and state law imposed interest are not both imposed on the same amount for the same dates.

First period:

- If the date of transfer is on or after the due date of the return, interest under 6601 runs on the transferor's tax liability from the due date of the return to the date of transfer.
- Since, in an intermediary transaction it is possible that the transfer may come before the due date of the return, in such a circumstance state law may impose interest for the use of the asset from the date of transfer up until the due date of the return.

Second period:

- If the asset transferred exceeds the transferor's liability on the date of transfer, interest under 6601 continues to run from the date of transfer until the earlier of exhaustion of the value of the asset or the beginning of interest on the transferee's liability.
- If the value of the asset transferred is less than the transferor's liability on the date of transfer, state law may impose interest from the date of transfer to the date interest begins to run on the transferee's liability.
- If the value of the asset exceeded the transferor's liability but has been exhausted and time still remains before interest begins to run on the transferee's liability, state law may impose interest from the point of exhaustion of the value of the assets until interest begins to run on the transferee's liability.

Third period:

- 6601 interest runs on the liability of the transferee from the date demanded until the date paid.
- The date of demand of the transferee's liability is the date of notice of assessment and demand for payment.

C. You describe an example where the asset transferred is worth \$100 on the date of transfer and the transferor's liability is \$50 on the due date of the return. Let's also assume that the transfer occurred December 31, 2006 but the due date of the transferor's return is April 15, 2007 (putting aside the effect of dissolution on the due date of the return). Finally, notice of assessment and demand for payment of the transferee's liability was given September 30, 2008. Interest would be due as follows: (1) under state law from 12/31/06 to 4/15/07; (2) under 6601 from 4/15/07 until the earlier of the exhaustion of the asset value or 9/29/08, and if the value of the asset was exhausted before 9/29/08, under state law from exhaustion of the value of the asset until 9/29/08; (3) under 6601 from 9/30/08 until paid.