4 T.C. 125 (1944)

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When a non-resident alien domiciled in a community property jurisdiction owns stock in a U.S. corporation, only one-half of the stock's value is included in the decedent's gross estate for U.S. estate tax purposes, regardless of how the stock is titled.

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Summary

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Paul Vandenhoeck, a Brazilian citizen domiciled in France, died owning stock in U.S. corporations. He was married in France without an ante-nuptial agreement, meaning under French law, all property was community property. Some stock was held jointly with his wife. The Tax Court addressed whether all or only half the stock value should be included in Vandenhoeck's gross estate, the valuation of Houdry Process Corporation stock, and the transferee liability of the surviving wife. The court held that French community property law applied, limiting the taxable estate, and determined the Houdry stock's value. The wife, as the possessor of the estate's assets, was deemed liable as a transferee for the estate tax.

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Facts

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Paul Vandenhoeck, a Brazilian citizen, was domiciled in France. He married Jeanne Vandenhoeck in France in 1911 without a prenuptial agreement. French law stipulated that all property acquired during the marriage was community property, with each spouse owning one-half. Vandenhoeck died in 1939, leaving a will bequeathing his property to his wife. At the time of his death, he possessed stock in U.S. corporations, some held jointly with his wife as "joint tenants." The stock certificates were found in his safe in France.

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Procedural History

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The estate filed a U.S. estate tax return, including only half the value of the jointly held stock. The Commissioner of Internal Revenue increased the value of certain stock and determined a deficiency in estate tax. The Commissioner also determined that Jeanne Vandenhoeck was liable as a transferee of the estate's assets. The Tax Court consolidated the cases to determine the estate tax deficiency and the transferee liability.

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Issue(s)

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1. Whether the Commissioner erred in refusing to recognize community property ownership by the decedent and his wife of shares of stock issued by domestic (United States) corporations.

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2. Whether the Commissioner erred in increasing the value of shares of Houdry Process Corporation.

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3. Whether the Commissioner erred in determining that the petitioner is liable as a transferee for the estate tax.

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Holding

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1. No, because under French community property law, the stock was community property, and only one-half of its value is included in the decedent's gross estate.

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2. Yes, because the fair market value of the Houdry stock was determined to be $40 per share, not the Commissioner's assessed value.

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3. Yes, because the surviving wife took possession of the decedent's property,

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making her liable as a transferee for the estate tax.

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Court’s Reasoning

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The court reasoned that the law of the decedent’s domicile (France) determines the ownership of property for estate tax purposes. Since French law establishes community property, only the decedent’s one-half interest is includible in his gross estate. The court emphasized that U.S. estate tax law taxes the transfer of the net estate and that the extent of the decedent’s interest is determined by local law, quoting 309 U.S. 78, 80: “State law (law of the domicile) creates legal interests and rights. The Federal revenue acts designate what interests or rights, so created, shall be taxed.” Even though the stock certificates listed the couple as “joint tenants,” French law prohibited changing the character of community property into a joint tenancy during the marriage. The court determined the Houdry stock’s value based on expert testimony and the company’s financial condition. Finally, because the wife possessed the estate assets, she was deemed a transferee liable for the unpaid estate tax, referencing 283 U.S. 589: “The obligation to be enforced is the liability for the tax.”

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