7 T.C. 666 (1946)

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A taxpayer may deduct losses incurred when property located in German-controlled territory is expropriated, even if the expropriation occurs before the United States formally declares war, under either war loss provisions or general loss deduction principles.

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Summary

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Eugene Houdry, a resident alien of the U.S. and former French citizen, sought to deduct a loss on his 1941 U.S. tax return related to real property in France that was first confiscated by the Vichy government and then subject to seizure attempts by German forces. The Tax Court held that the loss was deductible in 1941, either under the war loss provisions of Section 127 of the Internal Revenue Code, or under general loss deduction principles established in *United States v. White Dental Mfg. Co.* The court reasoned that even if the war loss provisions didn't apply because the loss occurred before the U.S. declared war, the loss was still deductible under general principles because the property became worthless in 1941.

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Facts

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Eugene Houdry, a resident alien in the U.S. during 1941, owned real property in Athis-Mons, France. He was a French citizen until May 1941, when the Vichy Government revoked his citizenship. In 1940, the area where Houdry's property was located came under German occupation. The cost basis, less depreciation, of Houdry's share of the property was $67,000 in 1941. After Houdry lost his French citizenship, the Vichy government confiscated his property. Subsequently, German authorities attempted to seize the same property, leading to a legal dispute pending in the

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