8 T.C. 841 (1947)

To claim a war loss deduction under Section 127 of the Internal Revenue Code, a taxpayer must prove ownership and existence of the property on the date the United States declared war on the relevant enemy, and also provide evidence of the property's cost basis.

Summary

Eric Heckett sought war loss deductions for stock in a Dutch company and personal property left in the Netherlands in 1939, claiming they became worthless due to the German occupation. The Tax Court allowed the deduction for the stock, finding its value was lost when the U.S. declared war on Germany, as the company's assets were then deemed destroyed or seized. However, the court denied the deduction for personal property because Heckett failed to prove the property's existence on the declaration date or its cost basis, as required for casualty loss deductions under tax regulations.

Facts

Eric Heckett, a U.S. resident and former citizen of the Netherlands, owned 17 shares of a Dutch company. In 1939, he moved to the U.S., leaving personal property behind in the Netherlands. This property included household furnishings in storage, silverware at the Dutch company's office, and miniatures with his mother. Germany invaded the Netherlands in May 1940 and occupied the country thereafter. Heckett sought to deduct the value of the stock and personal property as war losses on his 1941 U.S. tax return.

Procedural History

Heckett filed his 1941 tax return claiming war losses. The Commissioner of Internal Revenue denied a portion of the claimed deductions, resulting in a deficiency assessment. Heckett petitioned the Tax Court for a redetermination of the deficiency. He amended his petition to include the war loss claim for destruction of personal property.

Issue(s)

1. Whether Heckett was entitled to a war loss deduction under Section 127(a)(3) of the Internal Revenue Code for the stock in the Dutch company.

2. Whether Heckett was entitled to a war loss deduction under Section 127(a)(2) for the personal property left in the Netherlands.

Holding

1. Yes, because the Dutch company's assets were deemed destroyed or seized on

© 2025 SCOTUSreports.com. All rights reserved.

December 11, 1941, when the U.S. declared war on Germany, rendering the stock worthless.

2. No, because Heckett failed to prove the existence of the personal property on December 11, 1941, or its cost basis as required for casualty loss deductions.

Court's Reasoning

Regarding the stock, the court relied on testimony that the Dutch company possessed its assets until December 11, 1941. Under Section 127(a), all property in enemy-controlled territory is deemed destroyed or seized on the date war is declared. Therefore, the stock became worthless on that date, entitling Heckett to a deduction.

Regarding the personal property, the court emphasized that a war loss deduction requires proof that the property existed on the date war was declared. The court noted the lack of evidence showing the miniatures left with Heckett's mother still existed or that the warehouse storing the household furnishings was still standing on December 11, 1941, especially considering the known bombing of Amsterdam and Rotterdam. The court also emphasized that Heckett failed to provide evidence of the cost basis for the lost items, which is necessary to calculate a casualty loss deduction under applicable regulations. The court stated that "the deduction for the loss may not exceed costs, and, in the case of depreciable nonbusiness property, may not exceed the value immediately before the casualty."

A key point was the court's reliance on the Senate Finance Committee report, which stated, "However, no loss can be taken under this provision which occurred prior to December 7, 1941," reinforcing the requirement of proving the property's existence at that time.

Practical Implications

This case underscores the importance of meticulous record-keeping for claiming war loss deductions. Taxpayers must demonstrate continuous ownership and existence of property until the date it is deemed lost under tax law. It highlights the need for concrete evidence, such as dated records or credible witness testimony, to substantiate claims. The case also reinforces the application of casualty loss principles to war loss deductions, necessitating proof of the asset's cost basis to determine the deductible amount. Later cases cite *Heckett* for its application of the 'existence on the declaration date' rule. It serves as a reminder that simply owning property that *might* have been lost in wartime is insufficient for claiming a deduction; taxpayers bear the burden of proof.

© 2025 SCOTUSreports.com. All rights reserved.