10 T.C. 1277 (1948)

Moneys deposited in a U.S. bank are considered deposited “for” a nonresident alien, and thus excluded from the gross estate for estate tax purposes, if the nonresident alien is the sole heir to the account and there are no known creditors.

Summary

This case addresses whether funds deposited in a New York bank account are includible in the gross estate of a nonresident alien for U.S. estate tax purposes. The decedent, Anna de Eissengarthen, was the sole heir to her son Jean’s estate, which included a bank account in New York. The Tax Court held that because Anna was the sole heir under Swiss law, and there were no known creditors of Jean in New York, the funds were considered to be deposited “for” Anna, a nonresident alien, and are therefore excludable from her gross estate under Section 863(b) of the Internal Revenue Code.

Facts

Jean Eissengarthen, a Swiss citizen and resident, had a cash deposit account with Guaranty Trust Co. in New York. Upon Jean’s death, his mother, Anna de Eissengarthen, a Chilean citizen and resident of Switzerland, became his sole heir under his will, with no executor appointed. Swiss law dictated that upon death, the decedent’s property immediately becomes the property of the heir. Anna died several months later. At the time of Anna’s death, there were no known creditors of Jean residing in New York. The funds remained in Jean’s name at the bank.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Anna’s estate tax, including the New York bank deposit in her gross estate. The estate’s ancillary administrator contested this inclusion, arguing the funds were excludable under Section 863(b). The Tax Court reviewed the Commissioner’s determination.

Issue(s)

Whether the funds in Jean Eissengarthen’s New York bank account were deposited “for” Anna de Eissengarthen, a nonresident alien, at the time of her death, thus qualifying for exclusion from her gross estate under Section 863(b) of the Internal Revenue Code.

Holding

Yes, because under Swiss law, Anna became the sole owner of the bank deposit upon Jean’s death, and there were no known creditors of Jean in New York. Therefore, the funds were considered to be on deposit for her benefit, satisfying the requirements of Section 863(b).

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Court’s Reasoning

The Tax Court relied on the language of Section 863(b), which excludes bank deposits made “by or for” a nonresident alien not engaged in business in the United States. The court emphasized that the statute does not require the deposit to be made directly by the decedent. The court interpreted “for” to mean “for the use and benefit of” or “upon behalf of.” The court gave considerable weight to the stipulated fact that under Swiss law, Anna became the sole owner of the bank deposit immediately upon Jean’s death. The court distinguished *City Bank Farmers Trust Co. v. Pedrick*, noting that in that case, the trustee’s discretion over the funds prevented a clear finding that the deposit was for the decedent’s benefit. Here, because Anna was the outright owner with no known creditors, the court reasoned that the funds were unequivocally on deposit for her benefit, regardless of the bank’s requirement for ancillary administration before releasing the funds. The court stated, “These things being true, it follows, we think, that, immediately upon the death of Jean, Anna became the sole owner of the bank deposit in question and, notwithstanding the name of the account was not changed from ‘Dr. Jean Eissengarthen, deceased’ to that of ‘Anna Floto de Eissengarthen,’ it immediately became her property and at all times prior to her death it was money on deposit in the United States for her use and benefit.”

Practical Implications

This case clarifies the scope of the Section 863(b) exclusion for bank deposits of nonresident aliens. It highlights that ownership of the funds, rather than the name on the account, is the determining factor. Legal practitioners should investigate the applicable foreign law to establish the heir’s rights and confirm the absence of U.S.-based creditors. If the nonresident alien is the outright owner of the funds, the exclusion is likely to apply, even if formal legal processes (like ancillary administration) are required to access the funds. Subsequent cases will likely distinguish this ruling based on the degree of control the nonresident alien had over the funds and the presence of any encumbrances or potential claims against the funds.

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