11 T.C. 740 (1948)

A United States citizen who is also a citizen and resident of Puerto Rico is not subject to the federal estate tax under Section 802 of the Internal Revenue Code unless Congress explicitly states that the law applies to Puerto Rico.

Summary

The Tax Court addressed whether the estate of a U.S. citizen who was also a citizen and domiciliary of Puerto Rico was subject to federal estate tax. The Commissioner argued that Section 802 of the Internal Revenue Code applied to all U.S. citizens. The court, however, held that Congress had not demonstrated clear intent to extend the federal estate tax to U.S. citizens residing in Puerto Rico, given the historical and benevolent policy towards Puerto Rico. The court emphasized that internal revenue laws generally do not apply to Puerto Rico unless explicitly stated.

Facts

Albert DeCaen Smallwood was born a U.S. citizen in Missouri in 1889 and never lost that citizenship. He later became domiciled in and a citizen of Puerto Rico, where he engaged in business for many years. Smallwood died on July 21, 1944. The Commissioner of Internal Revenue determined that Smallwood was a U.S. citizen within the meaning of Section 802 of the Internal Revenue Code and, therefore, his estate was subject to federal estate tax on all property, wherever situated, except real property outside the U.S.

Procedural History

The Commissioner determined a deficiency in estate tax. The executors of Smallwood’s estate petitioned the Tax Court, arguing that Section 802 should not apply to U.S. citizens who are also citizens of Puerto Rico.

Issue(s)

Whether a U.S. citizen who is also a citizen and resident of Puerto Rico is a “citizen of the United States” within the meaning of Section 802 of the Internal Revenue Code, thereby subjecting their estate to federal estate tax.

Holding

No, because Congress has historically maintained a benevolent policy toward Puerto Rico, and a clear expression of Congressional intent is required to reverse this policy by applying a general internal revenue law to Puerto Ricans.

Court’s Reasoning

The court acknowledged that Section 802, standing alone, could be interpreted to

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apply to all U.S. citizens. However, it noted that Congress has historically treated Puerto Rico differently, reflecting a policy of solicitude for the welfare and development of Puerto Rico and its inhabitants. The court emphasized that Congress had consistently maintained a benevolent policy regarding Puerto Rico and generally exempted the territory from internal revenue laws. The court referenced the Foraker Act and the Jones Act, which provided that U.S. statutory laws not locally inapplicable apply to Puerto Rico, except for "the internal revenue laws." The court noted that when Congress intended an internal revenue law to apply to Puerto Rico, it expressly stated that the law applies to Puerto Rico or its "possessions" and provided that revenues collected thereunder from Puerto Rico would be covered into the Treasury of Puerto Rico. Since Section 802 did not contain such language, the court reasoned that Congress did not intend it to apply to U.S. citizens residing in Puerto Rico. The court quoted several Supreme Court cases to emphasize that repeals or annulments by implication are disfavored, and general statutes do not affect the special provisions of earlier statutes. The Court stated, "A clear expression of Congressional intention is required to reverse a general policy of government already well established."

Practical Implications

This case demonstrates the principle that general provisions of the Internal Revenue Code do not automatically extend to Puerto Rico, absent specific congressional intent. It highlights the importance of examining legislative history and the broader context of congressional policy when interpreting tax laws as they apply to U.S. territories. It also reinforces the principle that tax laws should be construed in light of established policies. This case suggests that revenue laws applicable to U.S. states should not automatically apply to territories or possessions, unless Congress explicitly says so. Later cases addressing taxation in U.S. territories must consider this ruling and the established policy of not extending tax burdens without clear congressional intent.

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