Estate of Anna de Guebriant, 14 T.C. 611 (1950)

Funds held in an active trust for the benefit of a nonresident alien are not considered "monies deposited by or for" the alien within the meaning of Section 863(b) of the Internal Revenue Code, and thus are not exempt from estate tax.

Summary

The Tax Court addressed whether cash deposits held in trust accounts for a nonresident alien were excludable from the gross estate under Section 863(b) of the Internal Revenue Code. The court held that funds held in an active trust, managed by a trustee, were not "deposited by or for" the decedent, as the trustee managed the funds and they were not segregated for the decedent's direct use. The court also determined the valuation of real estate held in the trust, adjusting the values to reflect market conditions at the time of the decedent's death.

Facts

Anna de Guebriant, a nonresident alien, was the income beneficiary of a trust. The trustee held cash deposits in bank accounts and also held title to six parcels of real estate. The cash deposits were never segregated from the general funds of the trust. After de Guebriant's death, her estate sought to exclude the cash deposits from her gross estate under Section 863(b) of the Internal Revenue Code, which exempts certain bank deposits of nonresident aliens. The estate also disputed the IRS's valuation of the real estate held in the trust.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax. The estate petitioned the Tax Court for a redetermination of the deficiency, contesting both the inclusion of the bank deposits and the valuation of the real estate. The Tax Court heard the case to determine the proper estate tax liability.

Issue(s)

1. Whether the cash deposits held in the bank accounts of the trust are excludable from the gross estate under Section 863(b) of the Internal Revenue Code as "monies deposited with any person carrying on the banking business, by or for" the nonresident alien decedent?

2. What is the proper valuation of the six parcels of real estate held in the trust for estate tax purposes?

Holding

1. No, because the funds were held in an active trust and managed by the trustee, and were not considered "deposited by or for" the decedent in the meaning of

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Section 863(b).

2. The Court determined the value of each property based on the evidence presented, adjusting for market conditions at the date of the decedent's death.

Court's Reasoning

Regarding the bank deposits, the court distinguished this case from situations where funds were directly deposited for the nonresident alien's use or held in a terminated trust subject to their unconditional use. The court emphasized that in an active trust, the trustee manages the funds and they are not segregated for the direct use of the beneficiary. The court cited *City Bank Farmers Trust Co. v. Pedrick*, noting that funds held in a similar active trust were not considered bank deposits under Section 863(b). The court stated that "the cases all seem to be in agreement that funds held in an active trust for the benefit of the nonresident alien are not 'monies deposited * * * by or for' him within the meaning of section 863 (b)."

Regarding the real estate valuation, the court considered evidence of market conditions and sales prices after the decedent's death, noting a sharp increase in real estate prices after the end of World War II. The court adjusted the values determined by the Commissioner to reflect the market conditions at the time of the decedent's death, stating, "The evidence as a whole shows, we think, that the prices at which the properties were sold…were somewhat higher than the values at the date of decedent's death…One of the reasons for this, according to the evidence, was a sharp advance in real estate prices…after the close of the war with Japan…"

Practical Implications

This case clarifies that the exemption for bank deposits under Section 863(b) does not extend to funds held in active trusts for nonresident aliens. Attorneys should advise trustees and estates that such funds are likely to be included in the gross estate. When valuing real estate for estate tax purposes, attorneys and appraisers must carefully consider market conditions at the date of death, and should not rely solely on subsequent sales prices. The case highlights the importance of distinguishing between funds held directly for a nonresident alien and those managed within an active trust structure. Later cases would likely cite this to distinguish situations where a trustee has significant control versus merely acting as a conduit for funds.

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