Estate of Rivera v. Commissioner, 19 T.C. 271 (1952)

The Federal estate tax is not applicable to a U.S. citizen who was domiciled in Puerto Rico at the time of death.

Summary

The Tax Court ruled that the estate of a U.S. citizen domiciled in Puerto Rico is not subject to the Federal estate tax. The decedent, a Puerto Rican citizen and resident, was treated as a "nonresident not a citizen" by the Commissioner, who sought to tax only property located within the United States. The court, relying on prior case law and the unique fiscal relationship between the U.S. and Puerto Rico, held that Puerto Ricans are full U.S. citizens and cannot be taxed as nonresident aliens. The court emphasized that Congress had not explicitly extended the Federal estate tax to Puerto Rico.

Facts

Decedent was a citizen and resident of Puerto Rico at the time of his death.
The Commissioner sought to apply the Federal estate tax to the decedent's estate, treating him as a "nonresident not a citizen of the United States."
Respondent attempted to tax only that portion of the decedent's property located within the United States at the time of death, excluding property located in Puerto Rico.
The estate argued that the decedent, as a U.S. citizen residing in Puerto Rico, was not subject to the Federal estate tax. The estate maintained that the decedent was an American citizen who cannot be taxed as a nonresident alien.

Procedural History

The Commissioner determined a deficiency in the decedent's estate tax.
The estate petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

Whether the estate of a U.S. citizen domiciled in Puerto Rico is subject to the Federal estate tax.

Holding

Yes because the Federal estate tax is not applicable to a citizen of the United States who was domiciled in Puerto Rico and the decedent was an American citizen who cannot be taxed as a nonresident alien.

Court's Reasoning

The court relied heavily on its prior decision in *Estate of Albert DeCaen Smallwood,*

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11 T.C. 740, which held that Part II of the estate tax law (sections 810 to 851, I.R.C.) is not applicable to American citizens who are residents and citizens of Puerto Rico.
The court emphasized that Congress had specifically omitted American citizens who are residents and citizens of Puerto Rico from Part II of the estate tax law, indicating a lack of intention to subject them to the Federal estate tax.
The court noted that since 1900, Congress had consistently provided that U.S. statutory laws, except for internal revenue laws, apply to Puerto Rico.
The court highlighted that Puerto Ricans are full U.S. citizens by virtue of the Jones Act, with the policy being to put them on an exact equality with citizens from the American homeland.
The court stated, “Puerto Ricans may, therefore, not be treated or described in ways which make distinctions as to the time or means of acquisition of citizenship.”
The court rejected the Commissioner’s argument that the Smallwood case was distinguishable because it involved Part II of the estate tax law, while the present case involved Part III. The court reasoned that Puerto Ricans are full American citizens and cannot be taxed as nonresident aliens.

Practical Implications

This decision clarifies that U.S. citizens domiciled in Puerto Rico are not subject to the Federal estate tax, reinforcing the fiscal independence of Puerto Rico.
Legal practitioners should be aware of this exception when advising clients who are U.S. citizens residing in Puerto Rico regarding estate planning.
This case, along with Smallwood, serves as precedent for treating Puerto Rican citizens differently than other U.S. citizens for Federal tax purposes due to the unique relationship between the U.S. and Puerto Rico.
Later cases addressing similar issues must consider this ruling and the underlying principles of Puerto Rico’s fiscal autonomy and the full U.S. citizenship of Puerto Ricans.

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