19 T.C. 271 (1952)

The federal estate tax does not apply to a U.S. citizen who is domiciled in Puerto Rico at the time of death.

Summary

The Estate of Clotilde Santiago Rivera challenged the Commissioner of Internal Revenue's determination that the estate of a U.S. citizen domiciled in Puerto Rico should be taxed as a "nonresident not a citizen" under sections 860-865 of the Internal Revenue Code. The Tax Court held that the federal estate tax is not applicable to such citizens, following the precedent set in *Estate of Albert DeCaen Smallwood*. The court reasoned that Congress's omission of American citizens residing in Puerto Rico from the estate tax provisions indicates an intent not to subject them to the federal estate tax.

Facts

Clotilde Santiago Rivera was born in Puerto Rico in 1872 and was domiciled there until his death in New York in 1949. Rivera became a U.S. citizen by virtue of the Jones Act of 1917. His will was protocolized and recorded in Puerto Rico. The executors filed an estate tax return with the collector of internal revenue for the second New York District, disclosing property in the U.S. exceeding $300,000, but stating that the return was prepared under protest, as if the estate were that of a nonresident alien. The estate also filed an inventory of assets and liabilities in Puerto Rico. The stocks and bonds were physically located within the United States at the time of death.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the estate tax, arguing that the estate should be taxed as that of a nonresident alien under sections 860-865 of the Internal Revenue Code. The estate petitioned the Tax Court, contesting the deficiency and arguing that the estate tax law was inapplicable or, alternatively, that it should receive the exemptions and credits afforded to estates of American citizens. The Tax Court ruled in favor of the petitioner.

Issue(s)

Whether the estate of a U.S. citizen domiciled in Puerto Rico at the time of death is subject to the federal estate tax as a "nonresident not a citizen" under sections 860-865 of the Internal Revenue Code.

Holding

No, 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

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cannot be taxed as a nonresident alien.

Court's Reasoning

The court relied heavily on its prior decision in *Estate of Albert DeCaen Smallwood*, which involved similar facts. The court emphasized Congress's historical treatment of Puerto Rico's fiscal independence. The court noted that since 1900, U.S. statutory laws apply to Puerto Rico, "except the internal revenue laws." The court rejected the Commissioner's attempt to distinguish *Smallwood* based on whether the tax was asserted under Part II (citizen or resident) or Part III (nonresident not a citizen) of the estate tax law, stating, "Puerto Ricans, including the decedent herein, are full American citizens by virtue of the Jones Act…The policy behind this enactment was 'the desire to put them [Puerto Ricans] as individuals on an exact equality with citizens from the American homeland.'" The court found that treating Puerto Ricans differently based on the method of acquiring citizenship was impermissible.

Practical Implications

This case clarifies that U.S. citizens domiciled in Puerto Rico are not subject to the federal estate tax, reinforcing the principle of Puerto Rico's fiscal independence within the U.S. legal framework. Attorneys should use this case to advise clients domiciled in Puerto Rico that their estates will not be subject to federal estate tax based on their U.S. citizenship. The ruling confirms that the method or time of acquisition of U.S. citizenship does not justify differential treatment under federal tax laws. This decision has been followed in subsequent cases involving similar facts and reinforces the unique status of Puerto Rico within the U.S. tax system. It serves as a reminder that tax laws must be interpreted in light of the specific historical and legal relationship between the United States and Puerto Rico.

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