Estate of Lina Joachim, 18 T.C. 884 (1952)

Under I.R.C. § 863(b), money deposited in a U.S. bank "by or for" a nonresident alien not engaged in business in the U.S. is not considered property within the U.S. for estate tax purposes, even if the funds are held by a third party for the alien's benefit.

Summary

The Tax Court considered whether funds held by the Treasurer of the City of New York for the benefit of a nonresident alien, Lina Joachim, were exempt from U.S. estate tax under I.R.C. § 863(b) as a bank deposit "by or for" her. The funds originated from a trust established by her brother, which were paid into the Surrogate's Court for her benefit due to her residing in enemy-occupied territory during World War II. The court found that the funds, deposited in a bank by the City Treasurer, were held for her benefit and thus were exempt from estate tax, even though the Alien Property Custodian had subsequently vested the funds. The decision emphasizes that the focus is on the beneficial ownership of the funds rather than the formal title at the time of death.

Facts

Lina Joachim, a nonresident alien not engaged in business in the United States, died in a German concentration camp in 1943. Her brother established a trust in 1935, with her as a remainderman. After his wife's death, the trustee filed an account. The Surrogate's Court ordered the City Treasurer to hold funds for Joachim's benefit due to her residence in enemy territory. The City Treasurer deposited $168,361.80 in a bank account in the name of "The Treasurer of the City of New York." The Alien Property Custodian vested Joachim's interest in the funds in 1942. Upon her death, the Commissioner of Internal Revenue determined the funds were includible in her gross estate.

Procedural History

The case was heard by the United States Tax Court. The Commissioner of Internal Revenue determined a deficiency in estate tax. The petitioner, representing the estate of Lina Joachim, challenged this determination. The Tax Court, after reviewing the stipulated facts, ruled in favor of the petitioner, finding that the funds were exempt from estate tax under I.R.C. § 863(b).

Issue(s)

1. Whether the funds deposited in a U.S. bank by the Treasurer of the City of New York for the benefit of Lina Joachim were "moneys deposited with any person carrying on the banking business, by or for a nonresident" under I.R.C. § 863(b).

2. Whether the vesting of Joachim's interest in the funds by the Alien Property

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Custodian affected the applicability of I.R.C. § 863(b) for estate tax purposes.

Holding

1. Yes, because the funds were deposited for Joachim's benefit, satisfying the "by or for" requirement of I.R.C. § 863(b).

2. No, because I.R.C. § 36 of the Trading with the Enemy Act mandates that for tax purposes, the vesting of property by the Alien Property Custodian is disregarded, and thus the funds should be treated as if they were held by the Treasurer of the City of New York for Joachim at the time of her death.

Court's Reasoning

The court focused on the language of I.R.C. § 863(b), which states that funds are exempt if deposited "by or for" a nonresident alien. The court held that it was immaterial that the funds were not deposited directly by Joachim, or in her name, as long as they were deposited for her benefit. The court cited prior rulings emphasizing beneficial ownership. The court further considered the Trading with the Enemy Act, specifically section 36 which permitted the court to disregard the vesting of the funds and treat them as if they were held by the City Treasurer for the benefit of the decedent. The court found that "His sole duty with respect to these funds was to conserve them for her" and that she was "for all practical purposes their owner."

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