Estate of Henry K. Schwartz, Deceased, Robert Schwartz, Suzanne Schwartz, and Mark Stewart, Administrators, Petitioner v. Commissioner of Internal Revenue, Respondent, 83 T. C. 943 (1984)

Bank deposits in a foreign country's banks are considered situated in that country for the purpose of claiming a federal estate tax credit if the decedent was a resident of that country at the time of death.

Summary

Henry K. Schwartz, a U. S. citizen and Spanish resident, died in Spain with bank deposits in Spanish banks. The issue was whether these deposits qualified for a foreign estate tax credit under section 2014 of the Internal Revenue Code. The Tax Court held that the deposits were situated in Spain, allowing the estate a credit for taxes paid to Spain. The decision hinged on the interpretation of statutory provisions and regulations, emphasizing that the decedent's actual residence in Spain determined the situs of the deposits for tax purposes.

Facts

Henry K. Schwartz, a U. S. citizen who had been living in Spain since 1969, died intestate in Madrid on May 3, 1978. At the time of his death, he had bank deposits in two Spanish banks, totaling $182,262. Schwartz also owned a condominium and furnishings in Spain. The estate paid estate taxes to Spain on these assets, including the bank deposits, and claimed a foreign estate tax credit under section 2014 of the Internal Revenue Code.

Procedural History

The IRS issued a notice of deficiency disallowing the credit for the bank deposits, asserting they were not situated in Spain. The estate petitioned the U. S. Tax Court for review. The Tax Court, after considering the statutory provisions and regulations, ruled in favor of the estate, allowing the credit.

Issue(s)

1. Whether bank deposits in Spanish banks, owned by a U. S. citizen residing in Spain at the time of death, are considered situated in Spain for the purpose of claiming a federal estate tax credit under section 2014 of the Internal Revenue Code.

Holding

1. Yes, because the decedent's residence in Spain at the time of death dictates that the bank deposits are treated as situated in Spain under the applicable statutory provisions.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court interpreted section 2014, which provides a credit for foreign death taxes on property situated in the foreign country. The statute refers to rules in subchapter B, which govern nonresident noncitizens, to determine property location. However, the court emphasized that the actual residence of the decedent should be considered when applying these rules. The court found that the general rule under section 2104(c) states that debt obligations (including bank deposits) are situated where the obligor is located, which in this case was Spain. The court rejected the IRS’s argument that the decedent should be treated as a nonresident of Spain, as this would lead to an absurd result where deposits in Spanish banks would be considered outside Spain if held by a resident but inside if held by a nonresident. The court also noted that no exceptions under sections 2104(c) or 2105 applied to treat the deposits as located outside Spain.

Practical Implications

This decision clarifies that the residency of a decedent is a critical factor in determining the situs of bank deposits for estate tax credit purposes. It impacts how estates of U. S. citizens residing abroad should approach claiming foreign tax credits, emphasizing the need to consider the decedent’s actual residence. The ruling may encourage estates to more confidently claim credits for taxes paid on bank deposits in foreign countries where the decedent was a resident. Subsequent cases, like *Borne v. United States*, have been distinguished based on this principle, and practitioners should be aware of this when advising clients on international estate planning and taxation.

© 2025 SCOTUSreports.com. All rights reserved.