Estate of Jean Simon Andre Arnaud, Deceased, Emile Furlan, Executor v. Commissioner of Internal Revenue, 90 T. C. 649 (1988)

Under the U. S. -France estate tax treaty, nonresident aliens are entitled to a marital deduction but limited to the unified credit applicable to nonresident aliens, not the higher domestic credit.

Summary

The Estate of Jean Simon Andre Arnaud, a French citizen, sought to apply the marital deduction and unified credit provided under the U. S. -France estate tax treaty for estate tax calculations. The Tax Court held that while the treaty allowed for a marital deduction, it did not extend the higher unified credit available to U. S. citizens to nonresident aliens, limiting the estate to the $3,600 credit specified for nonresidents. The court further clarified that the estate's tax liability should be calculated at the lower of two amounts: one using domestic rates with the marital deduction and the nonresident alien credit, or the other without the deduction using nonresident alien rates.

Facts

Jean Simon Andre Arnaud, a French citizen and resident, died in 1982 owning a parcel of real property in California valued at $232,584, which was community property. His estate filed a U. S. estate tax return claiming a marital deduction and the unified credit under the U. S. -France estate tax treaty. Initially, the estate used the $3,600 credit applicable to nonresident aliens but later amended its return to claim the $62,800 credit available to U. S. citizens.

Procedural History

The estate filed a nonresident U. S. estate tax return in 1982 using the $3,600 unified credit. An amended return was filed in 1985 claiming the $62,800 unified credit. The Commissioner determined a deficiency, leading to the estate's petition to the U. S. Tax Court, which issued its decision in 1988.

Issue(s)

1. Whether the estate of a nonresident alien is entitled to the unified credit against estate tax under the U. S. -France estate tax treaty as allowed to U. S. citizens and residents?
2. Whether the estate's tentative tax should be calculated using the rates under Section 2001 or Section 2101 of the Internal Revenue Code?

Holding

1. No, because the treaty specifies that nonresident aliens are limited to the unified credit provided under Section 2102(c), which is $3,600, not the higher credit

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available to U. S. citizens and residents.
2. The estate's tentative tax should be calculated using the lower of the tax under Section 2101(d) without the marital deduction or the tax under Section 2001(c) with the marital deduction, both using the $3,600 unified credit.

Court's Reasoning

The court interpreted the U. S. -France estate tax treaty to mean that while a nonresident alien's estate could benefit from a marital deduction, the unified credit remained limited to that provided for nonresident aliens. The court reasoned that the treaty's language was clear in specifying the use of domestic rates for tax calculation when a marital deduction was applied, but it did not extend the domestic unified credit to nonresidents. The court distinguished this case from *Estate of Burghardt v. Commissioner*, which dealt with a different treaty and circumstances. The court emphasized the intent of the treaty parties to impose the lower of two possible taxes, ensuring that the estate's tax liability would not exceed what it would have been without the treaty's benefits. The court also noted that the treaty's provision requiring the application of the lower tax was mandatory, not optional.

Practical Implications

This decision clarifies that nonresident aliens cannot claim the higher unified credit available to U. S. citizens under a treaty that allows for a marital deduction. Legal practitioners must carefully review the specific terms of applicable treaties to ensure accurate calculation of estate taxes for nonresident aliens. The ruling also underscores the importance of calculating the estate tax at the lower of two possible amounts when a treaty is in effect, which may influence estate planning strategies for nonresident aliens with U. S. assets. This case has been cited in subsequent decisions involving treaty-based estate tax calculations, reinforcing its significance in international estate tax law.

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