Estate of Noordin M. Charania, Deceased, Farhana Charania, Mehran Charania and Roshankhanu Dhanani, Administrators v. Commissioner of Internal Revenue, 133 T. C. 122 (United States Tax Court 2009)

The U. S. Tax Court ruled that shares of Citigroup stock owned by a deceased nonresident alien, Noordin M. Charania, were not community property under Belgian law, despite his long-term residence in Belgium. The court determined that English law, as the law of the spouses' common nationality, applied and classified the shares as separate property. Additionally, the court upheld an addition to tax for the estate's late filing of the tax return, rejecting the estate's claim of reasonable cause.

Parties

The petitioners were the Estate of Noordin M. Charania, represented by Farhana Charania, Mehran Charania, and Roshankhanu Dhanani, as administrators. The respondent was the Commissioner of Internal Revenue.

Facts

Noordin M. Charania and his wife Roshankhanu Dhanani, both United Kingdom citizens, were married in Uganda in 1967. In 1972, they were exiled from Uganda and moved to Belgium, where they resided until Charania's death in 2002. They did not formally change their marital property regime under Belgian law. At the time of his death, Charania owned 250,000 shares of Citigroup stock, which were held in an account in his name in a Belgian bank's Hong Kong branch. The estate claimed these shares were community property under Belgian law, thus only half should be included in the gross estate for U. S. estate tax purposes.

Procedural History

The estate filed a U. S. estate tax return on April 29, 2004, after an extension, reporting only half the value of the Citigroup shares as part of the gross estate. The IRS issued a notice of deficiency on February 22, 2007, asserting that the full value of the shares should be included in the estate and assessed an addition to tax for late filing. The estate petitioned the Tax Court for a redetermination of the deficiency and the addition to tax.

Issue(s)

Whether the value of the gross estate of Noordin M. Charania includes the full value of the Citigroup shares registered in his name at his death, and whether the estate is liable for the addition to tax under section 6651(a)(1) for late filing of the estate tax return.

Rule(s) of Law

Under section 2101(a) of the Internal Revenue Code, a federal estate tax is imposed on the taxable estate of every decedent nonresident not a citizen of the United States. Section 2103 specifies that the gross estate of a nonresident alien includes property situated in the United States at the time of death. Section 2104(a) deems corporate stock held by a nonresident noncitizen as situated in the United States if issued by a domestic corporation. The determination of foreign law is governed by Rule 146 of the Tax Court Rules of Practice and Procedure, which allows the court to consider any relevant material or source.

Holding

The Tax Court held that the Citigroup shares were not community property but were separate property of Noordin M. Charania under English law, which was applicable through Belgian conflict of laws principles. The court also held that the estate failed to establish reasonable cause for the late filing of the estate tax return, thus sustaining the addition to tax under section 6651(a)(1).

Reasoning

The court applied Belgian conflict of laws rules, which directed the application of English law to determine the marital property regime because Charania and his wife were both United Kingdom citizens. Under English conflict of laws, the rights to movable property acquired during marriage are governed by the law of the matrimonial domicile at the time of marriage, which was Uganda. However, the court found that English law would apply the doctrine of immutability, meaning the marital property regime established at the time of marriage in Uganda (separation of property under English law) continued to govern despite the couple's move to Belgium. The court rejected the estate's argument that forced exile justified a change to the Belgian community property regime, finding no legal authority or clear intent to change the regime. The court also concluded that the estate did not provide sufficient evidence to establish reasonable cause for the late filing, as required under section 6651(a)(1), referencing the Supreme Court's decision in United States v. Boyle, which establishes that reliance on counsel alone does not constitute reasonable cause for late filing.

Disposition

The court entered a decision for the respondent, sustaining the full inclusion of the Citigroup shares in the gross estate and the addition to tax for late filing.

Significance/Impact

This case highlights the complexities of applying foreign law to U. S. estate tax obligations, particularly in determining the marital property regime of nonresident aliens. It underscores the principle that, under U. S. tax law, the marital property regime is determined by the law applicable at the time of marriage, as modified by applicable conflict of laws rules. The case also reinforces the strict standards for establishing reasonable cause for late filing of tax returns, emphasizing that taxpayers bear the burden of proving such cause. Subsequent cases may cite Estate of Charania v. Comm'r for its treatment of the application of foreign marital property law in U. S. estate tax contexts and for its interpretation of the reasonable cause standard under section 6651(a)(1).

