resident of the United States and a citizen or subject of a foreign country with respect to which such a proclamation has been made, and who dies while the proclamation is in effect, a credit is allowed under section 2014 only if that foreign country, in imposing foreign death taxes, allows a similar credit to the estates of citizens of the United States who were resident in that foreign country at the time of death. The proclamation authorized by section 2014(h) for the reinstatement of the similar credit requirement with respect to the estates of citizens or subjects of a specific foreign country may be made by the President whenever he finds that—

(i) The foreign country, in imposing foreign death taxes, does not allow a similar credit to the estates of citizens of the United States who were resident in the foreign country at the time of death,

(ii) The foreign country, after having been requested to do so, has not acted to provide a similar credit to the estates of such citizens, and

(iii) It is in the public interest to allow the credit under section 2014 to the estates of citizens or subjects of the foreign country only if the foreign country allows a similar credit to the estates of citizens of the United States who were resident in the foreign country at the time of death.

The proclamation for the reinstatement of the similar credit requirement with respect to the estates of citizens or subjects of a specific foreign country may be revoked by the President. In that case, a credit is allowed under section 2014, to the estate of a decedent who was a citizen or subject of that foreign country and a resident of the United States at the time of death, without regard to the similar credit requirement if the decedent dies after the proclamation reinstating the similar credit requirement has been revoked.


§ 20.2014–2 “First limitation”.

(a) The amount of a particular foreign death tax attributable to property situated in the country imposing the tax and included in the decedent’s gross estate for Federal estate tax purposes is the “first limitation.” Thus, the credit for any foreign death tax is limited to an amount, A, which bears the same ratio to B (the amount of the foreign death tax without allowance of credit, if any, for Federal estate tax), as C (the value of the property situated in the country imposing the foreign death tax, subjected to the foreign death tax, included in the gross estate and for which a deduction is not allowed under section 2053(d)) bears to D (the value of all property subject to the foreign death tax). Stated algebraically, the “first limitation” (A) equals—

\[
A = \frac{C}{D} \times B
\]

The values used in this proportion are the values determined for the purpose of the foreign death tax. The amount of the foreign death tax for which credit is allowable must be converted into United States money. The application of this paragraph may be illustrated by the following example:

Example. At the time of his death on June 1, 1966, the decedent, a citizen of the United States, owned stock in X Corporation (a corporation organized under the laws of Country Y) valued at $80,000. In addition, he owned bonds issued by Country Y valued at $80,000. The stock and bond certificates were in the United States. Decedent left by will $20,000 of the stock and $50,000 of the Country Y bonds to his surviving spouse. He left the rest of the stock and bonds to his son. Under the situs rules referred to in paragraph (a)(3) of §20.2014-1 the stock is deemed situated in Country Y while the bonds are deemed to have their situs in the United States. (The bonds would be deemed to have their situs in Country Y if the decedent had died on or after November 14, 1966.) There is not death tax convention in existence between the United States and Country Y. The laws of Country Y provide for inheritance taxes computed as follows:

<table>
<thead>
<tr>
<th>Inheritance tax of surviving spouse:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of stock</td>
<td>$20,000</td>
</tr>
<tr>
<td>Value of bonds</td>
<td>50,000</td>
</tr>
<tr>
<td>Total value</td>
<td>70,000</td>
</tr>
<tr>
<td>Tax (16 percent rate)</td>
<td>11,200</td>
</tr>
</tbody>
</table>
§ 20.2014–3

Inheritance tax of son:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of stock</td>
<td>$60,000</td>
</tr>
<tr>
<td>Value of bonds</td>
<td>$30,000</td>
</tr>
<tr>
<td>Total value</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

Tax (16 percent rate) $14,400

The “first limitation” on the credit for foreign death taxes is:

\[
\frac{\text{Adjusted value of the property situated in the foreign country, subjected to foreign death tax, and included in the gross estate under section 2011 and by any credit for gift tax under section 2012))}}{\text{H (the value of the entire gross estate, reduced by the total amount of the deductions allowed under sections 2055 (charitable deduction) and 2056 (marital deduction). Stated algebraically, the “second limitation” (E) equals:}}
\]

\[
E = \frac{\text{F} \times \text{G}}{\text{H}}
\]

The values used in this proportion are the values determined for the purpose of the Federal estate tax.

(b) Adjustment is required to factor “G” of the ratio stated in paragraph (a) of this section if a deduction for foreign death taxes under section 2053(d), a charitable deduction under section 2055, or a marital deduction under section 2056 is allowed with respect to the foreign property. If a deduction for foreign death taxes is allowed, the value of the property situated in the foreign country, subjected to foreign death tax, and included in the gross estate does not include the value of any property in respect of which the deduction for foreign death taxes is allowed. See §20.2014–7. If a charitable deduction or a marital deduction is allowed, the value of such foreign property (after exclusion of the value of any property in respect of which the deduction for foreign death taxes is allowed) is reduced as follows:

1. If a charitable deduction or a marital deduction is allowed to a decedent’s estate with respect to any part of the foreign property, except foreign property in respect of which a deduction for foreign death taxes is allowed, specifically bequeathed, devised, or