§ 20.2106–2 Estates of nonresidents not citizens; deductions for expenses, losses, etc.

(a) In computing the taxable estate of a nonresident who was not a citizen of the United States at the time of his death, deductions are allowed under sections 2053 and 2054 for expenses, indebtedness and taxes, and for losses, to the following extent:

(1) A pledge or subscription is deductible if it is an enforceable claim against the estate and if it would constitute an allowable deduction under paragraph (a)(2) of § 20.2106–1, relating to charitable, etc., transfers, if it had been a bequest.

(2) That proportion of other deductions under sections 2053 and 2054 is allowed which the value of that part of the decedent’s gross estate situated in the United States at the time of his death bears to the value of the decedent’s entire gross estate wherever situated. It is immaterial whether the amounts to be deducted were incurred or expended within or without the United States. For purposes of this subparagraph, an amount which is includible in the decedent’s gross estate under section 2107(b) with respect to stock in a foreign corporation shall be included in the value of the decedent’s gross estate situated in the United States.

No deduction is allowed under this paragraph unless the value of the decedent’s entire gross estate is disclosed in the estate tax return. See paragraph (b) of § 20.2106–1.

(b) In order that the Internal Revenue Service may properly pass upon the items claimed as deductions, the executor should submit a certified copy of the schedule of liabilities, claims against the estate, and expenses of administration filed under any applicable foreign death duty act. If no such schedule was filed, the executor should submit a certified copy of the schedule of these liabilities, claims and expenses filed with the foreign court in which administration was had. If the items of deduction allowable under section 2106(a)(1) were not included in either such schedule, or if no such schedules were filed, then there should be submitted a written statement of the foreign executor containing a declaration that it is made under the penalties of perjury setting forth the facts relied upon as entitling the estate to the benefit of the particular deduction or deductions.

§ 20.2107–1 Expatriation to avoid tax.

(a) Rate of tax. The tax imposed by section 2107(a) on the transfer of the taxable estates of certain nonresident expatriate decedents who were formerly citizens of the United States is computed in accordance with the table contained in section 2001, relating to the rate of the tax imposed on the transfer of the taxable estates of decedents who were citizens or residents of the United States. Except for any amounts included in the gross estate solely by reason of section 2107(b) and paragraph (b)(1) (ii) and (iii) of this section, the value of the taxable estate to be used in this computation is determined as provided in section 2106 and § 20.2106–1. The decedents to which section 2107(a) and this section apply are described in paragraph (d) of this section.

(b) Gross estate—(1) Determination of value—(i) General rule. Except as provided in subdivision (ii) of this subparagraph with respect to stock in certain foreign corporations, for purposes of the tax imposed by section 2107(a) the value of the gross estate of every estate the transfer of which is subject to the tax imposed by that section is determined as provided in section 2103 and § 20.2103–1.

(ii) Amount includible with respect to stock in certain foreign corporations. If at the time of his death a nonresident expatriate decedent the transfer of whose estate is subject to the tax imposed by section 2107(a)
Internal Revenue Service, Treasury § 20.2107-1

(a) Owned (within the meaning of section 958(a) and the regulations thereunder) 10 percent or more of the total combined voting power of all classes of stock entitled to vote in a foreign corporation, and

(b) Owned (within the meaning of section 958(a) and the regulations thereunder), or is considered to have owned (by applying the ownership rules of section 958(b) and the regulations thereunder), more than 50 percent of the total combined voting power of all classes of stock entitled to vote in such foreign corporation,

then section 2107(b) requires the inclusion in the decedent’s gross estate, in addition to amounts otherwise includible therein under subdivision (i) of this subparagraph, of an amount equal to that proportion of the fair market value (determined at the time of the decedent’s death or, if so elected by the executor of the decedent’s estate, on the alternate valuation date as provided in section 2032) of the stock in such foreign corporation owned (within the meaning of section 958(a) and the regulations thereunder) by the decedent at the time of his death, which the fair market value of any assets owned by such foreign corporation and situated in the United States, at the time of his death, bears to the total fair market value of all assets owned by such foreign corporation at the time of his death.

(iii) Rules of application. (a) In determining the proportion of the fair market value of the stock which is includible in the gross estate under subdivision (ii) of this subparagraph, the fair market value of the foreign corporation’s assets situated in the United States and of its total assets shall be determined without reduction for any outstanding liabilities of the corporation.

(b) For purposes of subdivision (ii) of this subparagraph, the foreign corporation’s assets which are situated in the United States shall be all its property which, by applying the provisions of sections 2104, 2105, and §§ 20.2104–1 and 20.2105–1, would be considered to be situated in the United States if such property were property of a nonresident who was not a citizen of the United States.

(c) For purposes of subdivision (ii)(a) of this subparagraph, a decedent is treated as owning stock in a foreign corporation at the time of his death to the extent he owned (within the meaning of section 958(a) and the regulations thereunder) the stock at the time he made a transfer of the stock in a transfer described in sections 2035 to 2038, inclusive (relating respectively to transfers made in contemplation of death, transfers with a retained life estate, transfers taking effect at death, and revocable transfers). For purposes of subdivision (ii)(b) of this subparagraph, a decedent is treated as owning stock in a foreign corporation at the time of his death to the extent he owned (within the meaning of section 958(a) and the regulations thereunder), or is considered to have owned (by applying the ownership rules of section 958(b) and the regulations thereunder), the stock at the time he made a transfer of the stock in a transfer described in sections 2035 to 2038, inclusive. In applying the proportion rule of section 2107(b) and subdivision (ii) of this subparagraph where a decedent is treated as owning stock in a foreign corporation at the time of his death by reason of having transferred his interest in such stock in a transfer described in sections 2035 to 2038, inclusive, the proportionate value of the interest includible in his gross estate is based upon the value as of the applicable valuation date described in section 2031 or 2032 of the amount, determined as of the date of transfer, of his interest in the stock. See example (2) in subparagraph (2) of this paragraph.

(d) For purposes of applying subdivision (ii)(b) of this subparagraph, the same shares of stock may not be counted more than once. See example (2) in subparagraph (2) of this paragraph.

(e) The principles applied in paragraph (b) of §1.957–1 of this chapter (Income Tax Regulations) for determining what constitutes total combined voting power of all classes of stock entitled to vote in a foreign corporation for purposes of section 957(a) shall be applied in determining what constitutes total combined voting power of all classes of stock entitled to vote in a foreign corporation for purposes of section 2107(b).
and subdivision (ii) of this subparagraph. In applying such principles under this paragraph changes in language shall be made, where necessary, in order to treat the nonresident expatriate decedent, rather than U.S. sharehold-ers, as owning such total combined voting power.

(2) Illustrations. The application of this paragraph may be illustrated by the following examples:

Example (1). (a) At the time of his death, H, a nonresident expatriate decedent the trans-fer of whose estate is subject to the tax im-posed by section 2107(a), owned a 60-percent interest in M Company, a foreign partnership, which in turn owned stock issued by N Corporation, a foreign corporation. The stock in N Corporation held by M Company, which constituted 50 percent of the total combined voting power of all classes of stock entitled to vote in N Corporation, was valued at $50,000 at the time of H’s death. In addi-tion, W, H’s wife, also a nonresident not a citizen of the United States, owned at the time of H’s death stock in N Corporation constituting 25 percent of the total combined voting power of all classes of stock entitled to vote in that corporation. The fair market value of the assets of N Corporation which, at the time of H’s death, were situated in the United States constituted 40 percent of the fair market value of N Corporation’s assets which, at the time of H’s death, were situated within the United States at H’s death (within the meaning of section 958(a) and the regula-tions thereunder). Accordingly, $12,000 is included in H’s gross estate by reason of this paragraph to be owned by H for two independent reasons (i.e., under section 958(a) and the regulations thereunder), at the time of his death, 73 percent (48 percent plus 25 percent) of the total combined voting power of all classes of stock entitled to vote in N Corporation (having constructive ownership of his wife’s 25 percent, in addi-tion to his own indirect ownership of 30 per-cent, of the total combined voting power). Accordingly, $12,000 is included in H’s gross estate by reason of section 2107(b) and this paragraph. This $12,000 is the amount which is equal to 40 percent (the percentage of the fair market value of N Corporation’s asset which were situated within the United States at H’s death) of $30,000 (the fair market value of the stock then owned by H within-the meaning of section 958(a) and the regula-tions thereunder, i.e., H’s 60-percent in-terest in the $50,000 fair market value of stock held by M Company).

Example (2). (a) Assume the same facts as those given in example (1) except that H made a transfer to W in contemplation of his death (within the meaning of section 2035) of his 60-percent interest in M Company, that on the date of the transfer M Company held stock in N Corporation constituting 80 percent of the total combined voting power of all classes of stock entitled to vote in that corporation (rather than the 50 percent of total combined voting power held by M Com-pany on the date of H’s death), and that the 80 percent of total combined voting power owned by M Company on the date of the transfer is valued at $70,000 on that date and at $85,000 at the time of H’s death. It is as-sumed for purposes of this example that the 60-percent interest in M Company was held by W at the time of H’s death.

(b) The test contained in subparagraph (1)(i)(a) of this paragraph is met since, under subparagraph (1)(i)(c) of this paragraph, H is treated as owning (within the meaning of section 958(a) and the regulations thereunder) at the time of his death, the 48 percent (60 percent of 80 percent) of the total combined voting power of all classes of stock entitled to vote in N Corporation represented by his transferred interest in M Company; and the test contained in subparagraph (1)(i)(b) of this paragraph is met since, under that subparagraph and subparagraph (1)(i)(c) of this paragraph, H is treated as owning (within the meaning of section 958(a) or (b)), at the time of his death, 73 percent (48 percent plus 25 percent) of the total combined voting power of all classes of stock entitled to vote in N Corporation. Accordingly, $20,400 is included in H’s gross estate by rea-son of section 2107(b) and this paragraph. This $20,400 is the amount which is equal to 40 percent (the percentage of the fair market value of N Corporation’s assets which were situated within the United States at H’s death) of $51,000 (the fair market value at the time of H’s death of the transferred interest which under subparagraph (1)(i)(b) of this paragraph is considered to own within the meaning of section 958(a) and the regulations thereunder at that time, i.e., the 60-percent interest in the $85,000 fair market value at that time of the 80-percent total combined voting power held by M Company on the date of transfer).

(c) The fact that the stock in N Corpora-tion owned by M Company is considered under subparagraph (1)(i)(b) of this para-graph to be owned by H for two independent reasons (i.e., under section 958(a) and the regulations thereunder, because H transferred his 60-percent interest in M Company to W in contemplation of death, and under section 958(b) and the regulations thereunder, be-cause H is considered to own the stock in N Corporation indirectly owned by his wife, W,
by reason of her ownership of such transferred interest) does not cause the shares of stock represented by the transferred interest in M Company to be counted twice in determining whether the test contained in that subparagraph is met. See subparagraph (1)(iii)(d) of this paragraph.

Example (3). (a) At the time of his death, H, a nonresident expatriate decedent the transfer of whose estate is subject to the tax imposed by section 2107(a), owned a 50-percent beneficial interest in a domestic trust; at that time he also directly owned stock in P Corporation, a foreign corporation, constituting 15 percent of the total combined voting power of all classes of stock entitled to vote in that corporation. The trust owned stock in P Corporation constituting 51 percent of the total combined voting power of all classes of stock entitled to vote in that corporation. The stock in P Corporation owned directly by H was valued at $20,000 on the alternate valuation date determined pursuant to an election under section 2032. The fair market value of the assets of P Corporation which, at the time of H’s death, were situated in the United States constituted 20 percent of the fair market value of all assets of that corporation.

(b) By reason of section 958(b)(2) and the regulations thereunder, the trust is considered to own all the stock entitled to vote in P Corporation since it owns more than 50 percent of the total combined voting power of all classes of stock entitled to vote in that corporation. The test contained in subparagraph (1)(i)(a) of this paragraph is met since at the time of his death H owned (within the meaning of section 958(a) and the regulations thereunder) 15 percent of the total combined voting power of all classes of stock entitled to vote in P Corporation; the stock in P Corporation owned by the trust is not considered to have been owned by H under section 958(a)(2) since the trust is not a foreign trust. In addition, the test contained in subparagraph (1)(i)(b) of this paragraph is met since at the time of his death H owned or is considered to have owned (within the meaning of section 958(a) and (b) and the regulations thereunder) 55 percent of the total combined voting power of all classes of stock entitled to vote in that corporation (his 15 percent directly owned plus his 40 percent (40 percent of 100 percent) considered to be owned). Accordingly, $4,000 is included in H’s gross estate by reason of section 2107(b) and this paragraph. This $4,000 is the amount which is equal to 20 percent (the percentage of the fair market value of P Corporation’s assets which were situated within the United States at H’s death) of $20,000 (the fair market value of the stock then owned by H with-in the meaning of section 958(a) and the regulations thereunder). In addition, the value of H’s interest in the domestic trust is included in his gross estate under section 2103 to the extent it constitutes property having a situs in the United States.

(c) Credits. Credits against the tax imposed by section 2107(a) are allowed for any amounts determined in accordance with section 2102 and §20.2102-1 (relating to credits against the estate tax for State death taxes, gift tax, and tax on prior transfers). In computing the special limitation on the credit for State death taxes contained in section 2102(b) and paragraph (b) of §20.2102-1, amounts included in the gross estate under section 2107(b) and paragraph (b)(1) of this section are to be taken into account.

(d) Decedents to whom the tax imposed by section 2107(a) applies—(1) General rule. The tax imposed by section 2107(a) applies to the transfer of the taxable estate of every decedent nonresident not a citizen of the United States dying on or after November 14, 1966, who lost his U.S. citizenship after March 8, 1965, and within the 10-year period ending with the date of his death, except in the case of the estate of a decedent whose loss of U.S. citizenship either—

(i) Resulted from the application of section 301(b), 350, or 355 of the Immigration and Nationality Act, as amended (8 U.S.C. 1401(b), 1482, or 1487); or

(ii) Did not have for one of its principal purposes (but not necessarily its only principal purpose) the avoidance of Federal income, estate, or gift tax.

Section 301(b) of the Immigration and Nationality Act provides generally that a U.S. citizen, who is born outside the United States of parents one of whom is an alien and the other is a U.S. citizen who was physically present in the United States for a specified period of time, shall lose his U.S. citizenship if, within a specified period preceding the age of 28 years, he fails to be continuously physically present in the United States for at least 5 years. Section 350 of that Act provides that under certain circumstances a person, who at birth acquired the nationality of the United States and of a foreign country and who has voluntarily sought or claimed benefits of the nationality of any foreign country, shall lose his U.S. nationality if, after attaining the age of 22 years, he has a continuous residence for 3 years in the foreign country of which he is a national by birth. Section
§ 20.2201–1 Members of the Armed Forces dying during an induction period.

(a) The additional estate tax as defined in section 2011(d) does not apply to the transfer of the taxable estate of a citizen or resident of the United States dying during an induction period as defined in section 112(c)(5) (see paragraph (b) of this section) and while in active service as a member of the Armed Forces of the United States, if the decedent—

(1) Was killed in action while serving in a combat zone, as determined under section 112(c) (2) and (3) (see paragraph (c) of this section), or

(2) Died as a result of wounds, disease, or injury suffered while serving in such a combat zone and while in line of duty, by reason of a hazard to which he was subject as an incident of such service.

(b) Section 112(c)(5) defines the term “induction period” as meaning any period during which individuals are liable for induction, for reasons other than...