

(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similar credit requirement if the decedent dies after the proclamation reinstating the similar credit requirement has been revoked.

[T.D. 6296, 23 FR 4529, June 24, 1958, as amended by T.D. 6526, 26 FR 415, Jan. 19, 1961; T.D. 6600, 27 FR 4983, May 29, 1962; T.D. 7296, 38 FR 34192, Dec. 12, 1973]

**§ 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 subjected to the foreign death tax). Stated algebraically, the “first limitation” (A) equals—

Value of property in foreign country subjected to foreign death tax, included in gross estate and for which a deduction is not allowed under section 2053(d)(C) ÷ Value of all

property subjected to foreign death tax (D) × Amount of foreign death tax (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:

Inheritance tax of surviving spouse:	
Value of stock .....	\$20,000
Value of bonds .....	50,000
<b>Total value .....</b>	<b>70,000</b>
<b>Tax (16 percent rate) .....</b>	<b>11,200</b>
Inheritance tax of son:	
Value of stock .....	60,000
Value of bonds .....	\$30,000
<b>Total value .....</b>	<b>90,000</b>
<b>Tax (16 percent rate) .....</b>	<b>14,400</b>

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

$$\begin{aligned}
 & \$20,000 + \$60,000 \text{ (factor C of the ratio stated} \\
 & \text{at } \S 20.2014-2(a)) + \$70,000 + \$90,000 \text{ (factor} \\
 & \text{D of the ratio stated at } \S 20.2014-2(a)) \times \\
 & (\$11,200 + \$14,400) \text{ (factor B of the ratio} \\
 & \text{stated at } \S 20.2014-2(a)) = \$12,800
 \end{aligned}$$

(b) If a foreign country imposes more than one kind of death tax or imposes taxes at different rates upon the several shares of an estate, or if a foreign country and a political subdivision or possession thereof each imposes a death tax, a “first limitation” is to be computed separately for each tax or rate and the results added in order to

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determine the total “first limitation.” The application of this paragraph may be illustrated by the following example:

*Example.* The facts are the same as those contained in the example set forth in paragraph (a) of this section, except that the tax of the surviving spouse was computed at a 10 percent rate and amounted to \$7,000, and the tax of the son was computed at a 20 percent rate and amounted to \$18,000. In this case, the “first limitation” on the credit for foreign death taxes is computed as follows:

“First limitation” with respect to inheritance tax of surviving spouse:	
[\$20,000 (factor C of the ratio stated at § 20.2014-2(a)) + \$70,000 (factor D of the ratio stated at § 20.2014-2(a))] × \$7,000 (factor B of the ratio stated at § 20.2014-2(a)) =	\$2,000.
“First limitation” with respect to inheritance tax of son:	
[\$60,000 (factor C of the ratio stated at § 20.2014-2(a)) + \$90,000 (factor D of the ratio stated at § 20.2014-2(a))] × \$18,000 (factor B of the ratio stated at § 20.2014-2(a)) =	12,000.
Total “first limitation” on the credit for foreign death taxes	14,000

[T.D. 6296, 23 FR 4529, June 24, 1958, as amended by T.D. 6600, 27 FR 4984, May 29, 1962; T.D. 6684, 28 FR 11408, Oct. 24, 1963; T.D. 7296, 38 FR 34193, Dec. 12, 1973; 39 FR 2090, Jan. 17, 1974]

**§ 20.2014-3 “Second limitation”.**

(a) The amount of the Federal estate tax attributable to particular property situated in a foreign country, subjected to foreign death tax in that country, and included in the decedent’s gross estate for Federal estate tax purposes is the “second limitation.” Thus, the credit is limited to an amount, E, which bears the same ratio to F (the gross Federal estate tax, reduced by any credit for State death taxes under section 2011 and by any credit for gift tax under section 2012) as G (the “adjusted value of the property situated in the foreign country, subjected to foreign death tax, and included in the gross estate”, computed as described in paragraph (b) of this section) bears to 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:

“Adjusted value of the property situated in the foreign country, subjected to foreign

death taxes, and included in the gross estate” (G) + Value of entire gross estate, less charitable and marital deductions (H) × Gross Federal estate tax, less credits for State death taxes and gift tax (F)

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 otherwise specifically passing to a charitable organization or to the decedent’s spouse, the value of the foreign property is reduced by the amount of the charitable deduction or marital deduction allowed with respect to such specific transfer. See example (1) of paragraph (c) of this section.

(2) If a charitable deduction or a marital deduction is allowed to a decedent’s estate with respect to a bequest, devise or other transfer of an interest in a group of assets including both the foreign property and other property, the value of the foreign property is reduced by an amount, I, which bears the same ratio to J (the amount of the charitable deduction or marital deduction allowed with respect to such transfer of an interest in a group of assets) as K (the value of the foreign