Brewster v. Commissioner, 9 T.C. 102 (1947)

Expenses, including foreign income taxes, allocable to income excluded from U.S. gross income under section 116(a) of the Internal Revenue Code are not deductible, even if paid in a year subsequent to the income's receipt.

Summary

Brewster, a U.S. citizen, resided in Canada during 1939 and 1940, excluding his Canadian salary from U.S. income tax under section 116(a) of the Internal Revenue Code. In 1941, after moving to the U.S., he paid Canadian income taxes on his 1939 and 1940 Canadian income and deducted the full amount on his U.S. tax return. The Commissioner disallowed a portion of the deduction, arguing that section 24(a)(5) of the Code prohibited deducting expenses allocable to tax-exempt income. The Tax Court upheld the Commissioner's determination, finding that the Canadian income taxes were allocable to income previously excluded under section 116(a) and therefore not deductible, regardless of the year in which the taxes were paid.

Facts

- Brewster was a U.S. citizen.
- He resided in Canada during 1939 and 1940 and moved to Minneapolis, Minnesota, on March 22, 1941.
- He excluded his Canadian salary earned in 1939 and 1940 from his U.S. gross income for those years under section 116(a).
- In 1941, Brewster paid $24,398.14 in Canadian income taxes related to his 1939 and 1940 Canadian income.
- He deducted the full amount of Canadian taxes paid on his 1941 U.S. income tax return.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Brewster's 1941 income taxes, disallowing a portion of the deduction for Canadian income taxes paid. Brewster petitioned the Tax Court for a redetermination of the deficiency.

Issue(s)

1. Whether Canadian income taxes paid in 1941, allocable to income excluded from U.S. gross income in 1939 and 1940 under section 116(a) of the Internal Revenue Code, are deductible in 1941.

Holding

1. No, because section 24(a)(5) of the Internal Revenue Code prohibits the deduction of expenses allocable to income wholly exempt from U.S. income tax, and section 116(a) specifically disallows deductions allocable to income

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excluded under that section. This prohibition applies regardless of when the expenses are paid.

Court’s Reasoning

The Tax Court reasoned that section 24(a)(5) of the Internal Revenue Code disallows deductions for expenses allocable to income exempt from U.S. income tax. The court emphasized that this provision is general and does not restrict the limitation on deductions to any specific year. The court cited Regulations 103, section 19.24-4, which interprets the term

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