8 T.C. 848 (1947)

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A taxpayer enrolled as a temporary member of the Coast Guard Reserve, receiving civilian pay without a formal commission, is not entitled to the $1,500 tax exclusion granted to commissioned officers under Section 22(b)(13)(A) of the Internal Revenue Code.

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Summary

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William I. Connelly, a government employee, sought to exclude $1,500 from his income for 1943 and 1944, claiming he was a commissioned officer in the Coast Guard Reserve. He also sought to deduct $2,171.10 in 1944 for quarters and subsistence allowances. The Tax Court held that because Connelly was enrolled as a temporary member without a formal commission and received civilian pay, he did not qualify for the tax exclusion or the deduction. The court emphasized that tax exemptions are narrowly construed and that Connelly's enrollment did not equate to a presidential appointment as a commissioned officer.

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Facts

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William I. Connelly was a civil service employee who became an employee of the U.S. Coast Guard. He was enrolled as a temporary member of the Coast Guard Reserve with the rank of Lieutenant Commander, later Commander, for the duration of the war. His certificate stated he would serve without pay and allowances, other than his civilian compensation. Connelly continued to receive civilian pay, and deductions for civil service retirement continued. He was not commissioned in the Coast Guard Reserve in the traditional sense. He performed legal duties at Coast Guard Headquarters.

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Procedural History

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Connelly and his wife filed income tax returns for 1943 and 1944, claiming exclusions and deductions which the Commissioner of Internal Revenue disallowed. Connelly then petitioned the Tax Court for a redetermination of the deficiencies assessed by the Commissioner.

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Issue(s)

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1. Whether William I. Connelly, as a temporary member of the Coast Guard Reserve, is entitled to exclude $1,500 from his income under Section 22(b)(13)(A) of the Internal Revenue Code as a commissioned officer.

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2. Whether Connelly is entitled to deduct $2,171.10 from his income as an allowance for quarters and subsistence as if he were a regular commissioned officer.

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Holding

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1. No, because Connelly was not a commissioned officer in the traditional sense, as he was never formally appointed by the President, and his enrollment as a temporary member did not confer the same tax benefits.

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2. No, because Connelly did not actually receive any allowance for subsistence and quarters, as his enrollment specifically stated he would serve without such allowances.

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Court’s Reasoning

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The court emphasized that tax exemptions must be strictly construed in favor of the

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government, citing *Bank of Commerce v. State of Tennessee, 161 U.S. 134*. The court noted that Section 22(b)(13)(A) specifically grants the $1,500 exclusion to "commissioned officer (or a commissioned warrant officer)." Connelly admitted he never received a formal commission. The court reasoned that Congress was aware of the temporary enrollment of government employees in the Coast Guard Reserve and deliberately limited the tax exclusion to formally commissioned officers, implying that temporary members were not intended to receive the same benefit. Regarding the deduction for quarters and subsistence, the court pointed to Connelly's enrollment certificate, which explicitly stated he would serve "without pay and allowances." Since he received no such allowances, he could not deduct an equivalent amount. The court stated, "Unless he was a commissioned officer, we think he was not entitled to the tax exemption benefit provided for in section 22 (b) (13) (A) and (B) of the code, as amended."

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