8 T.C. 959 (1947)

A U.S. citizen working abroad can qualify as a bona fide resident of a foreign country for tax purposes if they demonstrate a clear intent to establish residency there, even if initially present for a temporary work assignment.

Summary

Charles Bouldin, a U.S. citizen, worked on the Canol oil project in Canada in 1943. He claimed exemption from U.S. income tax under Section 116(a)(1) of the Internal Revenue Code, arguing he was a bona fide resident of Canada. The Tax Court ruled in Bouldin's favor, finding that he had demonstrated a genuine intention to establish permanent residency in Canada due to health benefits and favorable living conditions, evidenced by his actions and statements, despite his initial temporary work assignment. This case clarifies the factors considered in determining bona fide residency for tax exemption purposes.

Facts

Bouldin, a U.S. citizen, suffered from chronic sinus issues. After his wife's death, he sought war-related work. In June 1942, he took a job in Edmonton, Canada, on the Canol oil project. Edmonton's dry climate significantly improved his sinus condition. By July 1942, he decided to make Edmonton his permanent residence, regardless of the project's duration. He rented a room at the MacDonald Hotel and made statements to friends about his intention to reside permanently in Edmonton. He also explored business opportunities in Edmonton, further indicating his intent to stay.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Bouldin's 1943 income tax, arguing his Canadian earnings were taxable. Bouldin contested this, claiming exemption under Section 116(a)(1) due to his Canadian residency. The Tax Court heard the case and ruled in favor of Bouldin, finding he was a bona fide resident of Canada during the entire taxable year 1943.

Issue(s)

Whether Charles Bouldin was a bona fide resident of Canada during the entire taxable year of 1943, thereby entitling him to exclude his Canadian-earned income from his U.S. gross income under Section 116(a)(1) of the Internal Revenue Code.

Holding

Yes, because Bouldin demonstrated through his actions and statements a definite intention to establish permanent residency in Canada, and his stay was of such an extended nature as to constitute him a Canadian resident for tax purposes.

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Court’s Reasoning

The Tax Court emphasized that residency, not domicile, is the key factor under Section 116(a)(1). It applied Treasury Regulations which provide that determining residency of a U.S. citizen in a foreign country should be done by using the same principles used to determine residency of an alien in the U.S. The court noted that an alien is presumed to be a nonresident, but this presumption can be overcome by demonstrating a definite intention to acquire residence or showing that the stay has been of such an extended nature as to constitute residency. Bouldin’s improved health, his statements to friends, his attempts to invest in local businesses, and his continuous stay at the MacDonald Hotel were all indicative of his intent to reside permanently in Canada. The court distinguished this case from others where temporary work assignments did not establish bona fide residency. The court quoted Regulation 111, Section 29.211-4 regarding “Proof of Residence of Alien.” It also quoted Mertens Law of Federal Income Taxation, vol. 3, sec. 19.31: “The words ‘residence’ and ‘domicile’ are often confused; a person may have several places of residence but only one domicile.”

Practical Implications

This case provides guidance on establishing bona fide residency in a foreign country for U.S. tax purposes. It highlights the importance of demonstrating a clear intention to reside permanently in the foreign country through actions and statements. Taxpayers working abroad should document their activities and intentions to support a claim of foreign residency. The Bouldin case is often cited in similar cases involving US citizens working abroad and seeking to exclude foreign earned income. Legal professionals advising clients on international tax matters need to carefully assess the facts and circumstances to determine whether a taxpayer has truly established a bona fide residency in a foreign country, going beyond a mere temporary work assignment.

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