Chapin v. Commissioner, 9 T.C. 142 (1947)

To qualify for the foreign earned income exclusion under Section 116 of the Internal Revenue Code, a U.S. citizen must demonstrate bona fide residency in a foreign country, considering factors beyond mere physical presence and stated intent.

Summary

Dudley A. Chapin, a U.S. citizen, sought to exclude income earned while working in North Ireland for Lockheed Overseas Corporation in 1943, claiming bona fide residency in the British Isles under Section 116 of the Internal Revenue Code. The Tax Court denied the exclusion, finding that Chapin's intent to remain permanently was unconvincing given his lack of familiarity with Ireland, the lower wages compared to the U.S., and the restrictions on his stay after his contract expired. The court relied on previous similar cases involving fellow Lockheed employees, emphasizing the lack of genuine intent to establish permanent foreign residency.

Facts

Chapin, a U.S. citizen, worked for Lockheed Overseas Corporation in North Ireland during 1943.
His employment contract was similar to those of other Lockheed employees working in Ireland.
Chapin testified that he intended to remain in Ireland permanently when he went there.
He admitted he had never been to Ireland before, knew little about the country, and was aware that wages were lower than in the U.S.
Chapin was not permitted to remain in Ireland after his contract expired and his visa period ended.

Procedural History

The Commissioner of Internal Revenue assessed a deficiency in Chapin's income tax for 1943.
Chapin petitioned the Tax Court for a redetermination of the deficiency, arguing he was entitled to the foreign earned income exclusion under Section 116.
The Tax Court ruled in favor of the Commissioner, denying the exclusion.

Issue(s)

Whether Dudley A. Chapin was a bona fide resident of the British Isles during 1943, as required to qualify for the foreign earned income exclusion under Section 116 of the Internal Revenue Code.

Holding

No, because Chapin's stated intent to remain permanently in Ireland was not

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credible, given his lack of knowledge about the country, the wage disparity, and the limitations on his stay. Therefore, he did not establish bona fide residency as required by Section 116.

Court's Reasoning

The court emphasized that the facts were almost identical to those in previous cases involving fellow Lockheed employees (Arthur J.H. Johnson, Michael Downs, and Ralph Love), where the court had already determined that the employees were not bona fide residents of the British Isles.
The court found Chapin's testimony about his intent to remain permanently unconvincing. The court stated, "It is difficult to believe in view of the fact that he admits that he had never been to Ireland, that he knew nothing of the country except what he had read, and that the pay of workers in Ireland was far below that received by them in the United States. Moreover, it would have been impossible for him to have remained in Ireland, since he was not permitted to stay after the expiration of his contract and the termination of the visa period."
The court concluded that Chapin was bound by the precedent established in the Johnson, Downs, and Love cases.

Practical Implications

This case highlights the importance of demonstrating a genuine intent to establish a permanent residence in a foreign country to qualify for the foreign earned income exclusion. Taxpayers cannot simply claim residency based on physical presence or a stated desire to stay permanently. Courts will examine objective factors such as familiarity with the country, economic ties, and immigration restrictions to determine whether a taxpayer is truly a bona fide resident. This case reinforces that temporary work assignments abroad, even with an expressed intention to remain, are unlikely to meet the bona fide residency test. Subsequent cases continue to emphasize the need for a holistic assessment of a taxpayer's connections to the foreign country and their intent to make it their home.

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