9 T.C. 142 (1947)

To qualify for a tax exemption under Section 116 of the Internal Revenue Code for income earned abroad, a U.S. citizen must demonstrate bona fide residency in a foreign country, considering factors such as intent, the nature of their presence, and the constraints on their freedom of movement.

Summary

Dudley A. Chapin, a U.S. citizen, worked at an air base in North Ireland for Lockheed Overseas Corporation during 1943. He claimed his income was exempt from U.S. taxes under Section 116 of the Internal Revenue Code, arguing he was a bona fide resident of the British Isles. The Tax Court disagreed, holding that Chapin's presence in Ireland was temporary and subject to the control of his employer and military authorities. His intent to remain permanently was unconvincing. Therefore, his income was not exempt from U.S. taxation.

Facts

Lockheed Aircraft Corporation contracted with the U.S. government to operate an aircraft base in North Ireland. Chapin entered into a contract with Lockheed Overseas Corporation to work at the base. His initial contract was extended, and he later signed a new contract tied to the duration of the government's contract with Lockheed. Chapin lived in provided hutments and ate at the employee mess. He was subject to military jurisdiction, needed passes to leave the base, and was on call 24 hours a day. Chapin intended to remain in Ireland permanently, but immigration laws would not permit him to stay indefinitely. His wife remained in California throughout his time overseas.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in Chapin's income tax for 1943. Chapin petitioned the Tax Court, arguing his income earned in Ireland was exempt. The Tax Court consolidated Chapin's case with his wife's, as they filed joint returns. The Tax Court ruled against Chapin, finding he was not a bona fide resident of a foreign country.

Issue(s)

Whether Dudley A. Chapin was a bona fide resident of the British Isles during the year 1943, thus entitling him to an exemption from U.S. income tax on income earned in North Ireland under Section 116 of the Internal Revenue Code.

Holding

No, because Chapin's presence in North Ireland was temporary and subject to the control of his employer and military authorities; therefore, he was not a bona fide

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resident of a foreign country. His intent to remain permanently was not convincing given the limitations on his ability to remain in the country.

Court's Reasoning

The court relied on its prior decisions in *Arthur J. H. Johnson*, *Michael Downs*, and *Ralph Love*, which involved similar facts where employees of Lockheed Overseas Corporation working in North Ireland were denied foreign resident status. The court emphasized the restrictions on Chapin's freedom of movement and the temporary nature of his employment. The court found Chapin's claim of intent to remain permanently in Ireland unconvincing, noting that he had never been to Ireland before, knew little about it, and that his visa would not allow him to stay permanently. The court concluded that the determinative underlying facts were almost identical to those in the previous cases, stating that the petitioners in *Downs* and *Love* "were fellow-employees of this petitioner and had gone to North Ireland in the employ of the Lockheed Overseas Corporation under contracts identical to the one executed by the petitioner, and performed services for Lockheed under the same rules and regulations governing this petitioner." The court ultimately held that Chapin was not a bona fide resident of the British Isles during 1943.

Practical Implications

This case clarifies the requirements for establishing bona fide foreign residence for tax purposes under Section 116 (now Section 911) of the Internal Revenue Code. It highlights that merely being physically present in a foreign country is insufficient. Courts will consider factors such as the individual's intent, the nature and purpose of their stay, the degree of integration into the foreign community, and any restrictions on their freedom of movement. Taxpayers seeking to claim the foreign earned income exclusion must demonstrate a genuine intent to establish residency in the foreign country and that their circumstances support that intent. Later cases have cited *Chapin* to emphasize the importance of demonstrating a genuine connection to the foreign country, beyond mere employment, when claiming the foreign earned income exclusion.

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