9 T.C. 619 (1947)

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An employee of an international organization temporarily residing and working in the United States is subject to U.S. income tax on compensation received, unless specifically exempted by statute.

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Summary

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John Henry Chapman, a citizen of New Zealand and an official of the League of Nations, temporarily resided in the United States during the war years to continue his work for the League. He argued that his income should be excluded from U.S. gross income or expressly exempted under specific provisions of the Internal Revenue Code. The Tax Court held that Chapman's income was taxable, finding that he was a U.S. resident for tax purposes and that no specific exemption applied to his situation. The court also denied his deduction for living expenses.

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Facts

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Chapman, a New Zealand citizen, was an official of the League of Nations. Due to wartime conditions, he and other League officials were instructed to relocate to Princeton, New Jersey, in 1940 to continue their work. Chapman lived and worked in Princeton from 1940 to July 1946, performing accounting work and compiling international trade statistics. He rented and furnished an apartment in Princeton. His salary was paid from a League of Nations bank account in the U.S.

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Procedural History

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The Commissioner of Internal Revenue determined deficiencies in Chapman's income tax for the years 1942, 1943, and 1944. Chapman challenged the

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Commissioner’s determination in the United States Tax Court, arguing that his income was either not includable in gross income or was specifically excluded under the Internal Revenue Code.

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Issue(s)

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1. Whether Chapman’s income as an official of the League of Nations is includable in gross income under Section 22(a) of the Internal Revenue Code.

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2. Whether Chapman’s income is expressly excluded from gross income under Sections 22(b)(8) and 116(h) of the Internal Revenue Code.

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3. Whether Chapman is entitled to a deduction for his living expenses in Princeton as traveling expenses under Section 23(a) of the Internal Revenue Code.

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Holding

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1. No, because Section 22(a) is broad in scope and intended to exercise the taxing power to the fullest extent, and Chapman’s situation does not warrant exclusion.

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2. No, because Chapman did not meet the requirements for exclusion under Sections 22(b)(8) and 116(h) as those sections were intended to provide reciprocal exemptions and did not apply to employees of international organizations until a later amendment not applicable to the tax years in question.

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3. No, because Princeton was Chapman’s home and place of business during the relevant years, and therefore his living expenses were not deductible as traveling expenses while away from home.

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Court’s Reasoning

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The court reasoned that Section 22(a) of the Internal Revenue Code is broad enough to include Chapman’s compensation in gross income. The court found that Chapman was a resident of the United States for tax purposes because he lived and worked in Princeton for an extended period with no definite intention of returning to his domicile abroad. The court rejected Chapman’s argument that principles of international comity should exempt his income, stating that Congress has the power to tax such income and has not provided a specific exemption for League of Nations officials in Chapman’s situation. Regarding Section 116(h), the court noted the provision was designed to allow exemptions based on reciprocity with foreign governments, which did not exist in Chapman’s case. The court also rejected the argument that the government induced the League of Nations officials to come with a promise that the normal operation of any of our laws would be suspended or changed.

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As to the deduction for living expenses, the court held that Princeton was Chapman’s tax home because that is where he resided and conducted his business for an extended period. Therefore, these expenses were not incurred while

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