Murdock v. Commissioner, 25 T.C. 1120 (1956)

To qualify for the earned income exclusion under I.R.C. § 116(a)(1), a U.S. citizen must be a bona fide resident of a foreign country or countries for the entire taxable year, which requires demonstrating a substantial presence and intent to remain.

Summary

The case concerns a U.S. citizen seeking to exclude earned income from her 1948 tax return under I.R.C. § 116(a)(1), which allows for the exclusion of foreign earned income if the taxpayer is a bona fide resident of a foreign country for the entire taxable year. The taxpayer, a social worker, worked for the United Nations Relief and Rehabilitation Administration (U.N.R.R.A.) and was stationed in multiple foreign countries before returning to the U.S. for medical treatment at the end of 1947. Her employment with U.N.R.R.A. ended in January 1948, and she did not secure new foreign employment until October 1948. The Tax Court held that because she was not employed in a foreign country for the entirety of 1948, she was not a bona fide resident of a foreign country for the whole year and could not exclude her foreign-earned income.

Facts

The taxpayer, a U.S. citizen, worked as a social welfare worker for U.N.R.R.A. from 1945, with postings in London, Brussels, and Addis Ababa. She returned to the United States in December 1947 for medical treatment. Her U.N.R.R.A. employment ended on January 31, 1948. She remained in the U.S. for medical care and convalescence. She eventually secured employment with U.N.I.C.E.F. and was assigned to Sofia, Bulgaria, departing the U.S. in October 1948. She claimed to be a bona fide resident of a foreign country for the entire 1948 tax year and sought to exclude her foreign earned income under I.R.C. § 116(a)(1). The Commissioner disputed this claim because of her time in the U.S. during 1948.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in the taxpayer's 1948 income tax. The case was heard by the Tax Court. The court was asked to determine whether the taxpayer was a bona fide resident of a foreign country for the entire taxable year. The Tax Court ruled in favor of the Commissioner.

Issue(s)

1. Whether the taxpayer was a bona fide resident of a foreign country during the entire taxable year 1948, as required to exclude earned income under I.R.C. § 116(a)(1).

Holding

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1. No, because the taxpayer was not a bona fide resident of a foreign country for the entire year, she did not qualify for the exclusion.

Court’s Reasoning

The court focused on the requirement under I.R.C. § 116(a)(1) that the taxpayer be a

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