30 T.C. 559 (1958)

Compensation received by a U.S. citizen for services performed for the government of American Samoa is considered to be derived from sources within the United States and is therefore subject to federal income tax because the government of American Samoa is an agency of the United States.

Summary

The case concerns whether income earned by a U.S. citizen working for the government of American Samoa is exempt from federal income tax under Section 251 of the Internal Revenue Code of 1939. The court held that the government of American Samoa is an "agency" of the United States. Therefore, the compensation earned by the petitioner was not exempt from taxation. The court relied on the plain language of the statute and a prior case with similar facts to determine that the petitioner's income was taxable. This decision clarified the tax treatment of income earned in American Samoa and highlighted the broad definition of "agency" within the tax code.

Facts

George R. Bell, a U.S. citizen, was employed by the government of American Samoa in its Department of Public Works from July 1, 1951, to June 30, 1953. During this period, he resided in American Samoa. The United States Navy Department had previously terminated Bell's employment effective June 29, 1951, due to the "Disestablishment of U.S. Naval Gov't Unit, Tutuila, American Samoa." The Civil Service Commission issued guidance on the classification of positions in American Samoa, while the Comptroller General noted recruitment difficulties due to employees losing federal benefits upon accepting employment with the Samoan government. Bell filed income tax returns for 1952 and 1953, claiming that his salary from the government of American Samoa was not subject to federal income tax because he was not an employee of the United States or its agency. The Commissioner of Internal Revenue determined deficiencies in Bell's income tax for those years.

Procedural History

The Commissioner of Internal Revenue determined deficiencies in the petitioner's income tax for the years 1952 and 1953. Bell contested this determination, asserting that his income earned in American Samoa was not subject to federal income tax. The case was brought before the United States Tax Court.

Issue(s)

Whether the government of American Samoa is an "agency" of the United States under Section 251(j) of the Internal Revenue Code of 1939.

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Holding

Yes, because the court determined that the government of American Samoa is an agency of the United States and, therefore, the petitioner's compensation was not exempt from taxation.

Court's Reasoning

The court considered whether the government of American Samoa constituted an "agency" of the United States. It acknowledged that, although Bell was not an employee of the United States Government, the critical determination was whether the Samoan government qualified as an "agency thereof." The court referenced Section 251(j) of the 1939 Code, which states, "For the purposes of this section, amounts paid for services performed by a citizen of the United States as an employee of the United States or any agency thereof shall be deemed to be derived from sources within the United States." The court found that the government of American Samoa was such an agency. The court referenced the prior case of *Edward L. Davis*, which had a similar set of facts, and, following its holding, sustained the Commissioner's determination.

Practical Implications

This case established that, for federal income tax purposes, the government of American Samoa is considered an agency of the United States. Therefore, the income earned by U.S. citizens working for the government of American Samoa is subject to U.S. federal income tax. This case is important for individuals who work or have worked in American Samoa because it clarified their tax obligations. It serves as a precedent for similar cases, establishing that the nature of the employing entity, rather than the direct employer status, dictates whether the income is subject to U.S. tax. The ruling affects tax planning for individuals who derive income from possessions of the United States, as it narrows the scope of income that might otherwise be excluded under Section 251.

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