30 T.C. 1151 (1958)

To qualify for a tax exemption under 26 U.S.C. § 116(a)(1), a U.S. citizen must be a bona fide resident of a foreign country for an uninterrupted period that includes an entire taxable year; mere presence for a portion of the year, or residence in a country other than the one intended, does not suffice.

Summary

The case of Donald and Edwina Nelson involved a dispute with the IRS over their income tax liability. The Nelsons, who were employed in Ethiopia, claimed a tax exemption under Section 116(a)(1) of the Internal Revenue Code of 1939, arguing they were bona fide residents of a foreign country for a period encompassing an entire taxable year (1952). The U.S. Tax Court ruled against the Nelsons. The court determined that their initial stay in France, while en route to Ethiopia, did not constitute bona fide foreign residence. Because their residence in Ethiopia began after the start of their taxable year, they did not meet the requirements for the exemption.

Facts

Donald Nelson, a retired military officer, accepted employment in Ethiopia for a telecommunication project. He departed the United States on November 21, 1951, and went to Paris, France, to handle preliminary matters. However, unexpected delays kept him in Paris until March 2, 1952, when he finally arrived in Ethiopia. The Nelsons lived at a hotel in Paris and traveled to other European countries during their stay. They returned to the U.S. on March 13, 1953, due to unforeseen problems in the project.

Procedural History

The Commissioner of Internal Revenue determined tax deficiencies for the Nelsons for the years 1952 and 1953. The Nelsons contested the deficiencies, leading to a case in the U.S. Tax Court. The Tax Court reviewed the facts and the relevant tax laws and ruled in favor of the Commissioner, thus upholding the tax deficiencies.

Issue(s)

1. Whether the Nelsons were bona fide residents of a foreign country for a period including the entire 1952 taxable year, as required by Section 116(a)(1) of the Internal Revenue Code of 1939.

Holding

1. No, because the Nelsons' period of residence in Ethiopia did not encompass their entire 1952 taxable year, and their stay in France before arriving in Ethiopia did not constitute bona fide foreign residence.

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Court’s Reasoning

The court focused on the interpretation of

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