Donaldson v. Commissioner, 51 T. C. 830 (1969)

An organization can be considered an 'agency of the United States' for tax exclusion purposes if it is engaged in governmental functions and subject to substantial government control.

Summary

In Donaldson v. Commissioner, the U. S. Tax Court ruled that the American Embassy Cooperative Commissary in Pakistan was an 'agency of the United States' under Section 911(a) of the Internal Revenue Code. Cecil A. Donaldson, employed by the commissary, sought to exclude his earnings from his taxable income, arguing that the commissary was not a U. S. agency. The court, however, found that the commissary was established and operated under governmental regulations, with significant oversight by the U. S. Department of State, and served governmental rather than commercial purposes. Therefore, Donaldson's income from the commissary was not excludable from his gross income. This case sets a precedent for determining when an organization constitutes a U. S. agency for tax purposes, focusing on the nature of its functions and the degree of governmental control.

Facts

Cecil A. Donaldson was employed as the assistant manager of the American Embassy Cooperative Commissary in Pakistan in 1963. The commissary operated under regulations prescribed by the Secretary of State, aimed at supporting U. S. personnel abroad. It was managed by committees composed of U. S. Government representatives, and its policies were directed by the U. S. Ambassador. The commissary's funds were derived from member deposits and loans, and its profits were used to reduce prices rather than accumulate capital. Donaldson received $16,055. 20 from the commissary in 1963 and sought to exclude this amount from his taxable income under Section 911(a) of the Internal Revenue Code, which excludes income earned abroad from sources outside the United States, except for amounts paid by the U. S. or its agencies.

Procedural History

Donaldson and his wife filed a joint Federal income tax return for 1963, claiming an exclusion for the income earned from the commissary. The Commissioner of Internal Revenue determined a deficiency, arguing that the income was not excludable because the commissary was an agency of the United States. Donaldson contested this determination, leading to the case being heard by the U. S. Tax Court. The court ultimately ruled in favor of the Commissioner, holding that the commissary was indeed an agency of the United States.

Issue(s)

1. Whether the American Embassy Cooperative Commissary in Pakistan was an

© 2025 SCOTUSreports.com. All rights reserved.

‘agency of the United States’ within the meaning of Section 911(a) of the Internal Revenue Code.

Holding

1. Yes, because the commissary was established and operated under governmental regulations, subject to substantial control by the U. S. Department of State, and engaged in governmental rather than commercial functions.

Court’s Reasoning

The court analyzed several factors to determine whether the commissary was an agency of the United States. It considered the statutory authority under which the commissary was established, the extensive regulations governing its operation, the fiscal control exerted by the U. S. Government, and the character of its functions. The court noted that the commissary was created under Section 921(b) of the Foreign Service Act, which authorizes non-Government-operated commissaries abroad. Despite the ‘non-Government-operated’ label, the commissary was subject to comprehensive regulations by the Secretary of State, with oversight by the Ambassador and other U. S. Government officials. The court compared the commissary to military post exchanges, which had been deemed governmental agencies in prior cases, and found similar levels of governmental control and purpose. The court concluded that the commissary’s governmental functions and the degree of governmental control made it an agency of the United States, thus disqualifying Donaldson’s income from the Section 911(a) exclusion.

Practical Implications

This decision has significant implications for how similar cases should be analyzed. It establishes that organizations operating under governmental regulations and oversight, even if labeled ‘non-Government-operated,’ can be considered agencies of the United States for tax purposes if they serve governmental functions. Legal practitioners must carefully examine the nature of an organization’s operations and the extent of governmental control when advising clients on potential tax exclusions under Section 911(a). For businesses and individuals working with or for such organizations abroad, this case underscores the importance of understanding the legal status of their employer for tax purposes. Subsequent cases, such as Raffensperger and Brummit, have been influenced by this ruling, with courts continuing to assess the level of governmental involvement and the organization’s purpose in determining agency status.

© 2025 SCOTUSreports.com. All rights reserved.