Dawson v. Commissioner, 59 T. C. 264 (1972)

To exclude foreign earned income under IRC Section 911, a taxpayer must be a bona fide resident of a foreign country for an uninterrupted period that includes an entire taxable year.

Summary

Donald Dawson, an American engineer, was transferred to Australia by his employer in late 1965. He arrived on January 3, 1966, and established residence there, intending to stay for at least 15 months. However, he returned to the U. S. in early 1967 due to unforeseen changes in his employer's projects. Dawson claimed a foreign earned income exclusion for 1966 under IRC Section 911. The Tax Court ruled that while Dawson was a bona fide resident of Australia, he did not meet the statutory requirement of being a resident for an entire taxable year, as he arrived on January 3, not January 1, and thus could not exclude his 1966 foreign earnings from U. S. taxation.

Facts

Donald Dawson, employed by C. F. Braun & Co. , was transferred to Australia to work on an ethylene plant project starting late 1965. He left the U. S. on December 27, 1965, and after a stopover in Tahiti and Fiji, arrived in Australia on January 3, 1966. Dawson intended to stay in Australia for at least 15 months, leased a house, enrolled his children in school, and integrated into the community. However, due to unexpected cancellations of projects, he returned to the U. S. in early 1967. Dawson sought to exclude his 1966 earnings from U. S. taxation under IRC Section 911.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Dawson's 1966 income tax return due to his exclusion of foreign earnings. Dawson petitioned the U. S. Tax Court, which heard the case and issued its decision on November 20, 1972.

Issue(s)

1. Whether Donald Dawson was a bona fide resident of Australia for the entire taxable year of 1966, as required by IRC Section 911(a)(1), to exclude his foreign earnings from U. S. taxation.

Holding

1. No, because Dawson did not become a bona fide resident of Australia until January 3, 1966, and thus did not meet the statutory requirement of being a resident for an entire taxable year.

Court's Reasoning

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The Tax Court, presided by Judge Raum, found that Dawson met the criteria for being a bona fide resident of Australia based on his intention to stay and his integration into the community. However, the court strictly interpreted the statutory requirement under IRC Section 911(a)(1) that a taxpayer must be a bona fide resident for an uninterrupted period including an entire taxable year. Since Dawson arrived on January 3, not January 1, he did not meet this requirement. The court considered the legislative history of the statute, which indicated that Congress intended the entire taxable year to mean the calendar year, and noted that Dawson's early return to the U. S. in 1967 further disqualified him from the exemption for 1966. The court sympathized with Dawson's situation but found the statutory language and legislative intent clear and binding.

Practical Implications

This decision underscores the strict interpretation of the "entire taxable year" requirement under IRC Section 911. Taxpayers and their advisors must ensure that any foreign assignment spans the entire calendar year to qualify for the foreign earned income exclusion. The ruling may affect how employers and employees plan international assignments, particularly in terms of timing and duration. It also highlights the importance of understanding the nuances of tax law when claiming exemptions, as even a few days can impact eligibility. Subsequent cases have continued to apply this strict interpretation, reinforcing the need for precise adherence to the statutory requirements of Section 911.

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