Roque v. Commissioner, 65 T. C. 920 (1976)

Moving expenses cannot be deducted if they are allocable to income exempt from federal income tax under IRC § 933.

Summary

In Roque v. Commissioner, the U. S. Tax Court disallowed a moving expense deduction claimed by Alberto and Zenaida Roque for their move from New York to Puerto Rico in 1971. The Roques argued the expenses were deductible under IRC § 217, but the court held that these expenses were allocable to tax-exempt Puerto Rican income under IRC § 933(1). The court extended its reasoning from the Hughes case, which dealt with foreign income exclusions, to apply to Puerto Rican income. The decision highlights that deductions cannot be claimed against current taxable income if they relate to future tax-exempt income, emphasizing the importance of allocation rules in tax law.

Facts

Alberto and Zenaida Roque resided in New York before moving to Puerto Rico in November 1971. Alberto discussed job opportunities in Puerto Rico in August 1971 and was hired in December 1971, starting work on January 2, 1972. They incurred $2,484. 30 in moving expenses. Neither earned Puerto Rican income in 1971, but both were bona fide residents of Puerto Rico from 1972 through 1974. The Roques claimed these expenses as a deduction on their 1971 federal income tax return, but the IRS disallowed the deduction.

Procedural History

The Roques filed a petition with the U. S. Tax Court challenging the IRS’s disallowance of their moving expense deduction. The Tax Court heard the case and issued its decision on February 3, 1976, ruling in favor of the Commissioner.

Issue(s)

1. Whether moving expenses incurred by the Roques in 1971 are deductible under IRC § 217 when those expenses are allocable to income exempt from federal income tax under IRC § 933(1).

Holding

1. No, because the moving expenses were properly allocable to or chargeable against tax-exempt income derived from sources within Puerto Rico, as per IRC § 933(1).

Court’s Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The Tax Court relied on the principles established in the Hughes case, which addressed the interaction between IRC § 217 and IRC § 911 concerning foreign income exclusions. The court found a sufficient nexus between the Roques' move and the subsequent tax-exempt income earned in Puerto Rico, justifying the allocation of moving expenses to that income. The court emphasized that IRC § 933(1) and IRC § 911 both contain language designed to ensure that tax-exempt income bears the costs associated with its production. The court also noted the absence of evidence that the Roques earned any income subject to federal income tax after moving to Puerto Rico, leading to the full disallowance of the moving expense deduction. The court rejected the argument that this ruling discriminated against Puerto Ricans or U. S. citizens moving to Puerto Rico, stating that the tax law applied equally to all taxpayers.

Practical Implications

This decision underscores the importance of allocation rules when claiming deductions related to tax-exempt income. Taxpayers must carefully consider the source of income they expect to earn after incurring expenses, as deductions cannot be claimed against current taxable income if they relate to future tax-exempt income. This ruling affects individuals moving to areas where their income may be exempt from federal taxation, such as Puerto Rico or certain foreign countries. Legal practitioners must advise clients on the potential tax implications of such moves, ensuring that deductions are not claimed prematurely. Subsequent cases involving the interplay between IRC § 217 and other sections providing for tax-exempt income may reference Roque v. Commissioner to support similar disallowances of deductions.

© 2025 SCOTUSreports.com. All rights reserved.