Puttkammer v. Commissioner, 66 T. C. 240 (1976)

An employee's gross income is measured in U. S. dollars received, not affected by the exchange rate used for converting those dollars to foreign currency for personal expenses.

Summary

Charles W. Puttkammer, employed by the Agency for International Development in India, sought to exclude or deduct the difference between the official and black market exchange rates when converting his U. S. dollar salary into Indian rupees for personal living expenses. The U. S. Tax Court held that his gross income was the total dollars received, and no deduction was allowed for the exchange rate difference, as the conversion was for personal expenses and not related to his trade or business or the production of income.

Facts

Charles W. Puttkammer worked as a nutrition expert for the Agency for International Development (AID) in New Delhi, India, in 1970. His salary was paid in U. S. dollars, which he deposited in a Washington, D. C. bank. To cover living expenses in India, he converted $8,590. 27 of his salary into Indian rupees at the U. S. Embassy, using the official exchange rate of 7. 6 rupees per dollar, as required by Indian law and an Embassy directive. The unofficial or black market rate was more favorable at approximately 12 rupees per dollar. Puttkammer claimed a $3,165. 51 adjustment on his 1970 tax return, representing the difference between the official and unofficial exchange rates.

Procedural History

The Commissioner of Internal Revenue disallowed Puttkammer's claimed adjustment, asserting that any loss was personal and not related to his trade or business. Puttkammer petitioned the U. S. Tax Court for a decision on the matter.

Issue(s)

1. Whether Puttkammer's gross income should be adjusted for the difference between the official and unofficial exchange rates when converting his salary into rupees for personal living expenses.
2. Whether Puttkammer is entitled to a deduction under sections 162(a), 165, or 212(1) of the Internal Revenue Code for the difference between the official and unofficial exchange rates.

Holding

1. No, because gross income is measured in U. S. dollars received, not by the exchange rate used for converting those dollars to foreign currency.

2. No, because the conversion of dollars to rupees was for personal, living, or family expenses, not for trade or business or the production of income, and thus does not qualify for a deduction under sections 162(a), 165, or 212(1).

Court's Reasoning

The court emphasized that gross income is calculated in U. S. dollars, as established in *Cinelli v. Commissioner*. Puttkammer's argument for adjusting his income based on exchange rates was rejected because his gross income was the total dollars received from AID, unaffected by how he spent them. The court also denied deductions under sections 162(a), 165, and 212(1) because the conversion to rupees was for personal expenses, not directly connected to his trade or business or the production of income. The court noted that a deductible loss requires a closed transaction, which was not present here as Puttkammer could convert rupees back to dollars at the official rate. The court recognized the increased living costs due to the official exchange rate but found no legal basis for a tax adjustment, noting that Congress addresses such issues through allowances and differentials for overseas employees.

Practical Implications

This decision clarifies that U. S. employees working abroad must report their gross income in U. S. dollars received, without adjustments for less favorable official exchange rates used for personal expenses. It underscores the principle that personal living expenses, even when affected by local laws and currency restrictions, do not qualify for deductions or exclusions under sections 162(a), 165, or 212(1). Practitioners advising clients working overseas should emphasize the importance of understanding the tax treatment of foreign currency transactions and consider the potential impact of exchange rates on personal finances. This ruling may influence how businesses structure compensation for employees in countries with significant currency exchange rate disparities.

