

## ***Maestre v. Commissioner, 73 T. C. 337 (1979)***

U. S. citizens working for the federal government in Puerto Rico are subject to federal income tax on their salaries, despite residing in Puerto Rico.

### **Summary**

In *Maestre v. Commissioner*, the Tax Court held that Ada Maestre's income from her employment with the Veterans' Administration was taxable under section 933 of the Internal Revenue Code, despite her residency in Puerto Rico. The court rejected the petitioners' arguments that the "Compact" between Puerto Rico and the U. S. barred such taxation, affirming that U. S. citizens are subject to federal tax laws regardless of their domicile. This decision clarifies the application of federal income tax to U. S. federal employees residing in Puerto Rico and underscores the limits of Puerto Rico's tax autonomy under the "Compact. "

### **Facts**

Ada N. Maestre, a U. S. citizen and bona fide resident of Puerto Rico, received \$8,684. 80 in 1975 for her services as an employee of the Veterans' Administration, a U. S. agency. She and her husband, Bernardo L. La Fontaine, filed joint Puerto Rican and federal income tax returns for that year. The Commissioner of Internal Revenue assessed a deficiency of \$378. 43, asserting that Maestre's income from the Veterans' Administration was taxable under section 933 of the Internal Revenue Code, which exempts Puerto Rican source income but not income from U. S. government employment.

### **Procedural History**

The Commissioner determined a deficiency in the petitioners' federal income taxes for 1975. The petitioners contested this determination by filing a petition with the U. S. Tax Court. The court heard the case and issued its opinion on November 26, 1979, ruling in favor of the Commissioner.

### **Issue(s)**

1. Whether section 933 of the Internal Revenue Code validly taxes income earned by a bona fide Puerto Rican resident as an employee of a U. S. government agency.
2. Whether the "Compact" between Puerto Rico and the United States prohibits the imposition of such federal income taxes on Puerto Rican residents.

### **Holding**

1. Yes, because section 933 explicitly excludes from exemption income received for services performed as an employee of the U. S. or any of its agencies, and Ada Maestre's income falls within this category.

2. No, because the “Compact” does not prevent Congress from exercising its taxing authority over U. S. citizens residing in Puerto Rico, and taxing the salaries of federal employees does not violate the “Compact. “

### **Court’s Reasoning**

The court applied section 933 of the Internal Revenue Code, which clearly states that income derived from sources within Puerto Rico is exempt from taxation only if it is not received for services performed as an employee of the U. S. or any of its agencies. The court emphasized that Ada Maestre’s income from the Veterans’ Administration was explicitly taxable under this provision. Regarding the “Compact,” the court cited previous cases to establish that it does not limit Congress’s power to tax U. S. citizens, regardless of their residence in Puerto Rico. The court also rejected the petitioners’ argument that section 933 was discriminatory, noting that the provision applies equally to all bona fide residents of Puerto Rico, whether U. S. citizens or aliens. The court’s decision was influenced by the policy of ensuring that U. S. citizens are subject to federal tax laws irrespective of their domicile, as established in *Cook v. Tait*.

### **Practical Implications**

This decision has significant implications for U. S. federal employees residing in Puerto Rico, as it confirms that their salaries are subject to federal income tax. Legal practitioners advising clients in similar situations must consider this ruling when calculating tax liabilities. The decision also clarifies the scope of the “Compact,” indicating that it does not shield U. S. citizens from federal taxation based on their Puerto Rican residency. Businesses employing federal workers in Puerto Rico should be aware of these tax obligations. Subsequent cases, such as *Roque v. Commissioner* and *Christensen v. Commissioner*, have reinforced this interpretation of section 933, ensuring its continued application in federal tax law.