Miller v. Commissioner, 73 T. C. 1039 (1980)

A U. S. citizen married to a nonresident alien can exclude the full amount of foreign earned income under section 911(a) despite community property laws.

Summary

In Miller v. Commissioner, the U. S. Tax Court addressed the application of section 911(a) to a U. S. citizen married to a nonresident alien. William Miller, a U. S. citizen residing in Belgium, sought to exclude his entire share of community income earned abroad. The court held that Miller could exclude the full amount of his foreign earned income under section 911(a), following the precedent set in Bottome v. Commissioner. However, the court denied summary judgment on Miller's claim to deduct full alimony and other expenses, finding genuine issues of material fact regarding the source of those payments.

Facts

William Miller, a U. S. citizen, was married to Maria, a German citizen, and resided in Belgium from January 1975 to August 1976. During this period, he worked for Hughes Aircraft International Service Co. , earning $39,660 in 1975 and $32,051. 46 in 1976. These earnings were considered community property under California law, where the couple's marital domicile was located. Miller claimed to exclude his entire one-half share of this income under section 911(a). He also deducted full amounts of alimony and other expenses on his tax returns, which the Commissioner contested.

Procedural History

Miller filed a motion for summary judgment in the U. S. Tax Court seeking to exclude his foreign earned income and to deduct full alimony and other expenses. The Commissioner objected, arguing that the exclusion should be limited and that the deductions should be split. The Tax Court granted summary judgment on the exclusion issue, affirming Bottome v. Commissioner, but denied it on the deduction issue due to genuine disputes over material facts.

Issue(s)

1. Whether Miller is entitled to exclude from his gross income the full amount of his one-half share of the community income earned abroad under section 911(a).
2. Whether Miller is entitled to deduct the full amounts of alimony and other expenses for 1975 and 1976.

Holding

1. Yes, because the court followed Bottome v. Commissioner, which invalidated the regulation limiting the exclusion to half the amount for a U. S. citizen married to a nonresident alien.

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2. No, because there are genuine issues of material fact regarding whether Miller paid these expenses from his separate property.

Court's Reasoning

The court's decision on the exclusion issue relied heavily on the precedent set in Bottome v. Commissioner, which held that the full exclusion under section 911(a) should apply regardless of community property laws. The court rejected the Commissioner's argument that a subsequent District Court case (Emery v. United States) should overrule Bottome, emphasizing the Tax Court's consistent application of Bottome in subsequent cases like Reese v. Commissioner. The court also considered the legislative intent behind section 911, which aimed to provide a single exclusion for foreign earned income, as noted in Renoir v. Commissioner. Regarding the deductions, the court found that Miller's affidavit did not sufficiently prove that the alimony and other expenses were paid from his separate property, thus creating a genuine issue of material fact that precluded summary judgment.

Practical Implications

This case clarifies that U. S. citizens married to nonresident aliens can claim the full section 911(a) exclusion for foreign earned income, regardless of community property laws. This ruling remains relevant for tax years before the 1977 amendment to section 879, which changed the tax treatment of community income for such couples. Practitioners should note that the decision does not extend to deductions, where the burden remains on the taxpayer to prove the source of funds used for expenses. This case also highlights the importance of understanding the interplay between federal tax law and state community property laws when advising clients on foreign income exclusions and deductions.

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