Butka v. Commissioner, 91 T. C. 110 (1988)

Moving expenses cannot be deducted if they are reimbursed by an employer and the reimbursement is excluded from gross income as foreign earned income.

Summary

David J. Butka, an IBM employee, worked in Germany from 1981 to 1983 and was reimbursed for his moving expenses back to the U. S. upon completion of his assignment. The IRS disallowed his deduction for these expenses under IRC section 217, arguing that the expenses were allocable to the tax-exempt reimbursement classified as foreign earned income under IRC section 911(a). The U. S. Tax Court held that the deduction was not allowable because it would constitute a double tax benefit, prohibited by IRC section 911(d)(6), and upheld the validity of the applicable Treasury regulations.

Facts

David J. Butka, an IBM employee, was assigned to work for IBM's German subsidiary from May 30, 1981, to September 3, 1983. Upon completion of his assignment, he returned to the U. S. to work for IBM in Endicott, New York. IBM had agreed to reimburse Butka's moving expenses to Germany and back to the U. S. without requiring continued employment post-return. Butka incurred $2,636. 49 in moving expenses for his return and was reimbursed by IBM. This reimbursement was excluded from his gross income as foreign earned income under IRC section 911(a). Butka claimed a deduction for these expenses on his 1983 tax return, which the IRS disallowed.

Procedural History

The IRS determined a deficiency in Butka's 1983 income tax, disallowing the moving expense deduction. Butka petitioned the U. S. Tax Court, which held that the deduction was not allowable under IRC section 911(d)(6) and upheld the validity of Treasury Regulation section 1. 911-6(b)(1).

Issue(s)

1. Whether moving expenses reimbursed by an employer and excluded from gross income as foreign earned income under IRC section 911(a) can be deducted under IRC section 217.
2. Whether Treasury Regulation section 1. 911-6(b)(1), which disallows such a deduction, is valid and applicable to the taxpayer's 1983 tax year.

Holding

1. No, because the moving expenses were allocable to the tax-exempt reimbursement and thus disallowed under IRC section 911(d)(6) to prevent a double

tax benefit.
2. Yes, because the regulation is reasonable, consistent with the statute, and the limited retroactivity to tax years beginning after December 31, 1981, was not an abuse of discretion.

Court’s Reasoning

The court reasoned that allowing both the exclusion of the reimbursement and the deduction of the expenses would result in a double tax benefit, which IRC section 911(d)(6) prohibits. The court emphasized the inseparable link between the moving expenses and their reimbursement, noting that the expenses were the cost of realizing the income represented by the reimbursement. The court also upheld the validity of Treasury Regulation section 1. 911-6(b)(1), finding it consistent with the statutory language and purpose. The regulation’s limited retroactivity was deemed reasonable and within the Secretary’s discretion under IRC section 7805(b).

Practical Implications

This decision clarifies that taxpayers cannot deduct moving expenses if they are reimbursed by an employer and the reimbursement is treated as excludable foreign earned income. Practitioners must advise clients that such a deduction constitutes a double tax benefit, which is prohibited. The ruling also affirms the authority of the Treasury to issue regulations with limited retroactivity, which can impact taxpayer planning and compliance. Subsequent cases have followed this precedent, reinforcing the principle that deductions cannot be taken for expenses allocable to tax-exempt income.

