Braddock v. Commissioner, 95 T. C. 639 (1990)

All compensation received by U. S. citizens employed by international organizations is subject to self-employment tax under the Social Security system.

Summary

Claude E. Braddock, employed by Intelsat, an international organization, received various forms of compensation including salary, allowances, and tax reimbursements. The key issue was whether all these forms of compensation were subject to self-employment tax. The U. S. Tax Court held that the entire amount received by Braddock from Intelsat was taxable as self-employment income, reasoning that Congress intended to treat employees of international organizations the same as other employees for Social Security purposes, despite the inability to tax the employer directly. This ruling was significant as it clarified the scope of self-employment tax for employees of international organizations.

Facts

Claude E. Braddock was employed by Intelsat, an international organization, in 1984. Intelsat, exempt from U. S. taxes, compensated its U. S. employees for their tax liabilities. Braddock received a base salary, dependency allowance, transportation allowance, overtime, and payments for federal and District of Columbia income and self-employment taxes. In total, he received $41,306. 23 in 1984. Braddock reported only $15,227 as income subject to self-employment tax on his tax return, excluding the tax reimbursements.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Braddock's self-employment tax for 1984, asserting that the entire $41,306. 23 was taxable. Braddock contested this, arguing that only his salary and overtime should be taxed. The case was initially designated as a "small tax case" but was redesignated as a regular tax case due to the amount in dispute. The case was heard by the U. S. Tax Court, which upheld the Commissioner's determination.

Issue(s)

1. Whether the entire compensation received by Braddock from Intelsat, including tax reimbursements, is includable as "net earnings from self-employment" under 26 U. S. C. § 1401 et seq.

Holding

1. Yes, because Congress intended that U. S. citizens employed by international organizations be covered by Social Security to the same extent as other employees, and thus all forms of compensation are taxable as self-employment income.

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Court’s Reasoning

The court reasoned that Congress intended to extend Social Security coverage to U. S. citizens working for international organizations by including them within the definition of “self-employed” under the Social Security Amendments Act of 1960. Since international organizations cannot be taxed, the self-employment tax rate applies to the employee’s total compensation to achieve parity with employees covered by FICA taxes. The court emphasized that the self-employment tax provisions should be broadly construed to favor Social Security coverage. The court also noted that tax reimbursements were part of Braddock’s total compensation for his services and thus should be included in his self-employment income. No dissenting or concurring opinions were noted in this case.

Practical Implications

This decision clarifies that U. S. citizens employed by international organizations must include all forms of compensation, including tax reimbursements, in their self-employment income for Social Security tax purposes. Legal practitioners should advise clients in similar situations to report all income received from such employers, including tax payments, as self-employment income. This ruling impacts how international organizations structure compensation packages for U. S. employees, ensuring they account for the full tax burden. Subsequent cases have referenced Braddock when addressing the taxation of employees of international organizations, reinforcing the principle that all compensation is subject to self-employment tax.

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