Bhutta v. Commissioner, 145 T. C. No. 14 (U. S. Tax Court 2015)

In Bhutta v. Commissioner, the U. S. Tax Court ruled that a Pakistani medical resident's income was not exempt from U. S. tax under the U. S. -Pakistan tax treaty. The court found that the resident, Usman Bhutta, was in the U. S. primarily for training, not for the purpose of teaching, thus not qualifying for a teaching exemption. Additionally, Bhutta failed to prove eligibility for a training exemption under the treaty. This decision clarifies the scope of treaty exemptions for foreign nationals engaged in U. S. medical training programs.

Parties

Plaintiff: Usman Bhutta, a citizen of Pakistan and a foreign medical graduate. Defendant: Commissioner of Internal Revenue, the respondent in this case.

Facts

Usman Bhutta, a citizen of Pakistan, graduated from Allama Iqbal Medical College in Pakistan in 2005. He entered the United States in 2009 to participate in an internal medicine residency training program at the University of Oklahoma Health Sciences Center. The program lasted three years, during which Bhutta received an annual salary. His duties included treating patients under supervision, conducting and presenting research, and supervising third- and fourth-year medical students. Bhutta's supervising of students involved taking them on rounds, preparing them for monthly examinations, and evaluating them. For the taxable year 2010, Bhutta reported his wages as exempt from U. S. income tax under Article XII of the U. S. -Pakistan tax treaty, claiming he was in the U. S. for the purpose of teaching. The Commissioner of Internal Revenue issued a notice of deficiency, disallowing the claimed exemption.

Procedural History

The Commissioner issued a notice of deficiency to Bhutta, disallowing his claimed exemption under Article XII of the U. S. -Pakistan tax treaty but allowing a $5,000 student exemption under Article XIII(1)(a). Bhutta timely petitioned the U. S. Tax Court for a redetermination of the deficiency. The Tax Court reviewed the case de novo, applying a preponderance of the evidence standard.

Issue(s)

Whether Usman Bhutta's wages earned as a medical resident in 2010 are exempt from U. S. income tax under Article XII of the U. S. -Pakistan Income Tax Convention, which exempts remuneration received for teaching by a professor or teacher temporarily visiting the U. S. for that purpose? Whether Bhutta's wages are exempt from U. S. income tax under Article XIII(3) of the U. S. -Pakistan Income Tax Convention, which exempts compensation up to $10,000 for services directly related to training, study, or orientation under arrangements with the U. S. or an agency or

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instrumentality thereof?

Rule(s) of Law

Article XII of the U. S. -Pakistan Income Tax Convention: “A professor or teacher, resident in one of the contracting States, who temporarily visits the other contracting State for the purpose of teaching for a period not exceeding two years at a university, college, school or other educational institution in the other contracting State, shall be exempted from tax by such other contracting State in respect of remuneration for such teaching. ”

Article XIII(3) of the U. S. -Pakistan Income Tax Convention: “A resident of one of the contracting States temporarily present in the other contracting State under arrangements with such other State or any agency or instrumentality thereof solely for the purpose of training, study or orientation shall be exempted from tax by such other State with respect to compensation not exceeding 10,000 United States dollars for the rendition of services directly related to such training, study or orientation. ”

Section 871(b) of the Internal Revenue Code: A nonresident alien engaged in a trade or business in the U. S. is subject to U. S. income tax on income effectively connected with that trade or business.

Holding

The Tax Court held that Bhutta was not in the U. S. for the purpose of teaching in 2010 and thus was not entitled to the exemption under Article XII of the U. S. -Pakistan Income Tax Convention. Furthermore, Bhutta was not entitled to the exemption under Article XIII(3) because he failed to prove he was in the U. S. under arrangements with the U. S. or an agency or instrumentality thereof.

Reasoning

The court’s reasoning focused on the interpretation of the phrase “the purpose of teaching” in Article XII. The court emphasized that Bhutta’s primary purpose in the U. S. was to receive medical training, not to teach. Bhutta’s supervising and training of medical students were incidental to his training program, as evidenced by the Form DS-2019 and his residency agreement. The court distinguished Bhutta’s case from revenue rulings cited by him, noting that those involved individuals who were primarily engaged in teaching before coming to the U. S. or were employed specifically for teaching duties. Regarding Article XIII(3), the court found that Bhutta did not provide credible evidence that his residency was under arrangements with the U. S. Government or an agency or instrumentality thereof. The court noted that the treaty’s technical explanation and related revenue rulings suggested that Article XIII(3) applied to government-sponsored or supported programs, which Bhutta’s residency was not. The court also considered the burden of proof, which

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remained with Bhutta as he did not meet the criteria for shifting the burden under Section 7491(a) of the Internal Revenue Code. The court's analysis included an examination of the plain meaning of treaty language, the context of the treaty's use, and the absence of legislative history or negotiators' intent to support a broader interpretation of the treaty's exemptions.

Disposition

The Tax Court sustained the Commissioner's determination of the deficiency as amended in the first supplemental stipulation of facts. The decision was to be entered under Rule 155 of the Tax Court Rules of Practice and Procedure.

Significance/Impact

This case clarifies the scope of tax treaty exemptions for foreign nationals engaged in U. S. training programs, particularly in the medical field. It underscores the importance of the primary purpose of an individual's presence in the U. S. when claiming exemptions under tax treaties. The decision may impact how medical residents and other trainees interpret their eligibility for treaty exemptions and may influence future negotiations and interpretations of similar provisions in other tax treaties. Additionally, it highlights the need for clear documentation and evidence when claiming treaty benefits, especially under provisions that require specific arrangements with the U. S. government or its agencies.

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