

Puttkammer v. Commissioner of Internal Revenue

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TAX — DEDUCTIONS — LOSSES SUFFERED BY FOREIGN SERVICE PERSONNEL AS A RESULT OF DIFFERING EXCHANGE RATES ABROAD MAY NOT BE DEDUCTED FOR INCOME TAX PURPOSES.

Puttkammer v. Commissioner of Internal Revenue,
[Dec. 33,813], 66 T.C. No. 26 (May 12, 1976)

Puttkammer, a nutrition expert for the Agency for International Development, was stationed in India. His salary was directly deposited into a Washington, D.C. bank. In order to obtain money for living expenses while abroad, Puttkammer would cash personal checks at the United States Embassy in New Delhi, India. According to an embassy directive with which Puttkammer complied, all United States employees were required to convert dollars to rupees only at the embassy, and only at the official Indian government exchange rate of 7.6 rupees per dollar. The unofficial or blackmarket conversion rate which could be obtained elsewhere in India and which was forbidden by Indian law, was 12 rupees per dollar at the time in question.

In 1970, Puttkammer exchanged \$8,590.27 for rupees at the embassy. On his 1970 joint income tax return he claimed \$3,165.51 as a deduction for the loss he incurred as a result of compliance with the directive. The Commissioner of Internal Revenue disallowed the deduction stating that the loss was a personal loss and not one related to trade or business. The Tax Court upheld the Commissioner.

In holding that a United States taxpayer's gross income and subsequent tax liability is expressed and measured in United States dollars, the court clearly followed precedent.¹ Thus, Puttkammer's income included his \$18,733.44 salary deposited to the Washington, D.C. bank. The court noted that the Internal Revenue Code does not provide any adjustment to income for loss incurred as a result of utilizing official versus unofficial exchange rates abroad.

Secondly, the court found that Puttkammer had converted his currency for personal expenses, and not for any of his official departmental duties or responsibilities. As a result, the court determined that the loss realized could not be considered under

1. *Cinelli v. Commissioner*, 502 F.2d 695, 697 (6th Cir. 1974).

Section 162a² of the Internal Revenue Code which allows a deduction for ordinary expenses incurred in carrying out a trade or business, under Section 212³ of the Internal Revenue Code which refers to expenses for the production of income, or under Sections 165a(1)⁴ and (2)⁵ which allow a deduction for uncompensated loss pertaining to a taxpayer's trade or business, or transactions entered into for profit.

Finally, the court reasoned that if the embassy directive resulted in an increase in the taxpayer's cost of living while stationed in India, the Internal Revenue Code does not provide a deduction for such an increase. The court noted that often both domestic and foreign laws affect a taxpayer's cost of living, yet no commensurate adjustment is allowed under present United States tax law. The court concluded that any adjustment of a foreign service employee's income due to differing local currency exchange rates is not appropriately accomplished through the tax system.

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2. Int. Rev. Code of 1954, § 162(a).
 3. *Id.* § 212.
 4. *Id.* § 165(c)1.
 5. *Id.* § 165(c)2.