

## **23 T.C. 1037 (1955)**

In determining whether a taxpayer provided over half the support for a dependent, the fair rental value of lodging provided by the taxpayer to the dependent must be included in the calculation, even if the taxpayer does not incur actual out-of-pocket costs equivalent to the fair rental value.

### **Summary**

The case concerns whether the fair rental value of lodging provided to a dependent parent should be considered when calculating the taxpayer's contribution to the dependent's support for dependency credit purposes. The Commissioner of Internal Revenue argued that only the actual out-of-pocket expenses for lodging should be considered, while the taxpayers contended that fair rental value should be included. The U.S. Tax Court sided with the taxpayers, ruling that fair rental value represents the economic value of the lodging provided and should be included in support calculations, effectively rejecting the Commissioner's interpretation of the regulations. The ruling emphasized the intent of the law to consider the overall support provided, not just cash outlays, in determining dependency.

### **Facts**

Emil and Ethel Blarek claimed a dependency credit for Ethel's mother, Mary Sabo, on their 1951 tax return. Mary Sabo received \$523.75 in old-age pension income. She lived with the Blareks. The Commissioner disallowed the credit, arguing that the Blareks did not provide over half of her support. The Commissioner conceded that the Blareks provided \$451.48 in support, including a portion of the costs for utilities, repairs, and other household expenses. The parties stipulated that the fair rental value of the room occupied by Mary Sabo was \$235.59. The central dispute was whether to include this fair rental value in determining the level of support.

### **Procedural History**

The Commissioner of Internal Revenue determined a deficiency in the Blareks' income tax. The Blareks petitioned the U.S. Tax Court to challenge the Commissioner's decision, arguing for the inclusion of the fair rental value of lodging to calculate their support of the dependent. The U.S. Tax Court sided with the Blareks, overruling the Commissioner and allowing for the dependency credit. There were two dissenting opinions.

### **Issue(s)**

1. Whether the fair rental value of lodging provided by a taxpayer to a dependent should be considered when calculating the taxpayer's contribution to the dependent's support for purposes of determining eligibility for a dependency credit.

## **Holding**

1. Yes, because the court held that in determining whether the taxpayers provided over half the support for a dependent, the fair rental value of the lodging they provided must be included in the calculation.

## **Court's Reasoning**

The court based its decision on the statutory definition of “support.” It referenced the legislative history of the dependency credit, highlighting that “a dependent is any one for whom the taxpayer furnished over half the support.” The court interpreted “support” to mean the overall economic value received by the dependent, not just the amount of cash spent by the taxpayer. The court emphasized that the fair rental value of lodging represents what the dependent would have to pay on the open market for comparable housing. The court explicitly rejected the Commissioner’s argument that only out-of-pocket expenses should be considered, arguing it conflicted with the intended meaning of the law.

The court also addressed the Commissioner’s concern about administrative difficulties in determining fair rental value, comparing it to the established practice of including fair rental value as compensation for employees. The court stated, “If this interpretation be contrary to the regulation, then the regulation must yield to our conclusion on the law, as expressed herein.” The dissenting judge, Judge Withey, argued against including fair rental value, stating it included depreciation and profit that the taxpayers did not necessarily furnish.

## **Practical Implications**

The ruling clarified the scope of “support” for dependency credit calculations. Taxpayers may include the fair market value of housing provided to a dependent. This case serves as precedent for future cases involving dependency credits and the valuation of in-kind support, such as lodging. This case highlights the need to consider the economic substance of support, not just cash outlays, when determining dependency. This decision influenced how the IRS assesses dependency claims where lodging or other in-kind support is provided to the dependent. It has broad implications for taxpayers supporting family members, as it clarifies what types of support are considered when determining eligibility for dependency credits.