***Bobo v. Commissioner, 70 T. C. 706 (1978)***

Net rental income from a mobile home park is not subject to self-employment tax if the services provided are those typically required to maintain the property for occupancy.

**Summary**

In Bobo v. Commissioner, the U. S. Tax Court ruled that net rental income from a mobile home park was not subject to self-employment tax under Section 1402(a)(1) of the Internal Revenue Code. The Bobos owned a mobile home park and provided services such as utility connections, sewage, and minimal maintenance, which were deemed necessary for maintaining the property in condition for occupancy. The court held that these services did not disqualify the income from being excluded from self-employment tax, emphasizing that only substantial services rendered for the convenience of the tenant would trigger such tax.

**Facts**

Fabian and Florence Bobo owned a 46-space mobile home park in Novato, California. Thirty-eight spaces were occupied by owners of independent mobile homes, and eight by tenants of mobile homes owned by the Bobos. The park included paved grounds, utility connections, and laundry facilities managed by an independent concessionaire. The Bobos employed a resident manager who handled minor maintenance tasks, collected rent, and cleaned vacant trailers. The IRS assessed deficiencies for 1973 and 1974, asserting that the rental income from the park was subject to self-employment tax.

**Procedural History**

The Bobos timely filed their federal income tax returns for 1973 and 1974 and contested the IRS's determination of self-employment tax deficiencies. They filed a petition with the U. S. Tax Court, which heard the case and rendered a decision in their favor.

**Issue(s)**

1. Whether net rental income from the Bobos' mobile home park is subject to self-employment tax under Section 1402(a)(1) of the Internal Revenue Code?

**Holding**

1. No, because the services provided by the Bobos were necessary to maintain the property in condition for occupancy and were not substantial services rendered to the occupants for their convenience.

**Court's Reasoning**

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The court applied Section 1402(a)(1) and related regulations, which exclude rental income from real estate from self-employment tax unless the income is derived from services rendered to the occupant. The court relied on the regulation's examples of services not considered as rendered to the occupant, such as providing heat, light, and trash collection. It also referenced Delno v. Celebrezze, which established that only substantial services that materially affect the tenant's payment should be considered. The Bobos' services, including utility connections and minimal maintenance, were deemed necessary for maintaining the property's occupancy condition. The court rejected the IRS's reliance on Rev. Rul. 72-331, finding it inconsistent with the regulation's intent. The laundry service, provided through a concessionaire, was not substantial enough to affect the exclusion of the rental income from self-employment tax.

**Practical Implications**

This decision clarifies that mobile home park owners can exclude net rental income from self-employment tax if the services provided are primarily for maintaining the property's condition for occupancy. Legal practitioners should advise clients in similar situations to ensure services provided do not cross the threshold of being substantial and for the convenience of tenants. The ruling has implications for how mobile home parks and similar real estate operations are managed and taxed, potentially affecting business practices in the industry. Subsequent cases have distinguished Bobo when services provided were more substantial or directly for the tenants' convenience.

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