Glenview Construction Co. v. Commissioner, 72 T. C. 966 (1979)

Concrete slabs in mobile home parks do not qualify as “residential rental property” for the purpose of using the 200-percent declining balance method of depreciation.

Summary

In Glenview Construction Co. v. Commissioner, the Tax Court held that concrete slabs in mobile home parks, rented to tenants who owned their own mobile homes, did not qualify as “residential rental property” under Section 167(j)(2) of the Internal Revenue Code. The court’s decision was based on the statutory requirement that 80% of rental income must come from “dwelling units,” which the slabs did not provide. Consequently, petitioners could not use the 200-percent declining balance method for depreciation, reverting to the 150-percent method. This ruling clarifies the definition of “residential rental property” and impacts how depreciation is calculated for similar properties.

Facts

Harry C. and Margaret F. Elliott owned and operated the Creekside Mobile Home Park, while Glenview Construction Co. , in which the Elliotts held majority shares, owned the Sunrise Terrace Mobile Home Estate. Both parks provided concrete slabs with utility hookups for tenants who owned their own mobile homes. The Elliotts claimed a depreciation deduction of $40,214 on the Creekside slabs for the year ending October 31, 1975, and Glenview claimed $109,577 and $110,772 for the years ending March 31, 1975, and March 31, 1976, respectively, using the 200-percent declining balance method over a 25-year useful life. The Commissioner challenged these deductions, asserting the slabs did not qualify as residential rental property under Section 167(j)(2), thus requiring the use of the 150-percent method.

Procedural History

The Tax Court consolidated the cases of Glenview Construction Co. and the Elliotts after the Commissioner determined tax deficiencies and the petitioners challenged these determinations. The court focused solely on the issue of whether the concrete slabs constituted “residential rental property” under Section 167(j)(2), leading to the decision that they did not.

Issue(s)

1. Whether the concrete slabs rented to tenants who owned their own mobile homes in mobile home parks constitute “residential rental property” under Section 167(j)(2) of the Internal Revenue Code, thus allowing the use of the 200-percent declining balance method of depreciation.

Holding

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1. No, because the concrete slabs do not qualify as “residential rental property” under Section 167(j)(2) as they do not generate rental income from “dwelling units,” which are required by the statute for such classification.

Court’s Reasoning

The Tax Court applied the statutory language of Section 167(j)(2), which specifies that property qualifies as “residential rental property” if 80% or more of its gross rental income is from “dwelling units. ” The court found that the concrete slabs did not provide living accommodations but were merely a place for tenants to position their own mobile homes, which they owned. The court emphasized the clear statutory definition and regulations that require rental income to be derived from dwelling units to qualify for the higher depreciation rate. The court also rejected the petitioners’ arguments based on legislative history, noting that the intent to stimulate low-income housing did not extend to mobile home sites where tenants owned their own homes. The court cited New Colonial Ice Co. v. Helvering, affirming that deductions are a matter of legislative grace and must meet statutory requirements.

Practical Implications

This decision affects how depreciation is calculated for mobile home park sites, limiting the use of accelerated depreciation methods for such properties. Legal practitioners advising clients with similar assets must ensure that properties meet the statutory definition of “residential rental property” to utilize the 200-percent declining balance method. This ruling may influence the valuation and investment decisions in mobile home parks, as the depreciation method impacts the financial returns. Subsequent cases may reference this decision to interpret what constitutes a “dwelling unit” for tax purposes, potentially affecting other types of rental properties where tenants provide their own living accommodations.

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