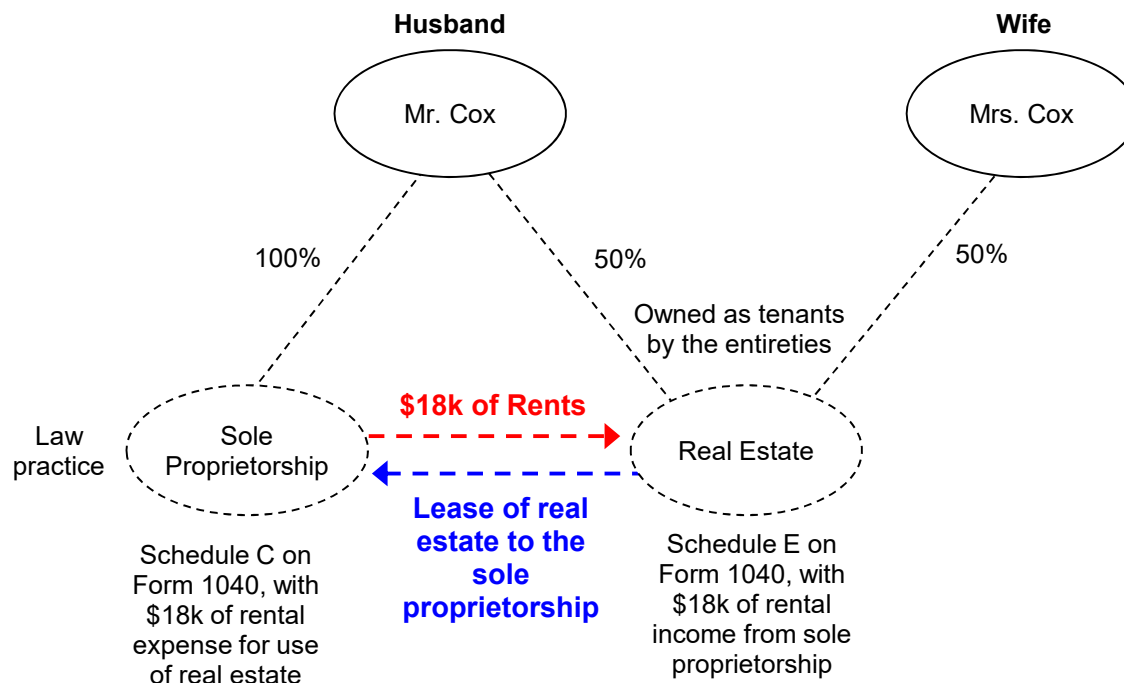


**Cox v. Commr.  
121 F.3d 390 (8th Cir. 1997)**

**Rental of Joint Real Estate to  
Husband's Sole Proprietorship**

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The issue in the case was whether Mr. Cox was entitled to deduct payments made on behalf of his law practice for the rental of property owned by Mr. and Mrs. Cox as tenants by the entirety. Mr. Cox's law practice occupied and paid "rent" of \$18,000 to Mr. & Mrs. Cox for the property during 1987. On their joint 1987 Federal income tax return, Mr. & Mrs. Cox reported receipt of the \$18,000 in rental income on their Schedule E. Mr. Cox reported the \$18,000 in rental payments on his Schedule C for his law practice as an ordinary and necessary business expense.

The IRS disallowed the Schedule C rental expense of \$18,000 in its entirety because the payments were made for the use of property to which Mr. Cox had title and in which he held an equity interest. The IRS also deleted the corresponding rental income reported by Mr. & Mrs. Cox on Schedule E. Contrary to the positions argued by both parties, the Tax Court held, and the 8th Circuit affirmed, that based on Mr. & Mrs. Cox's interest in the property, as determined by Missouri law and under section 162(a), Mr. Cox was entitled to deduct one-half of the payments, and, in turn, one-half of the payments were reportable as rental income on the joint return.

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