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the trust. This amount was applied as an offset against the rent that the taxpayer owed.

**Ken Berry, JD** • Aug. 27, 2017

Taxable compensation comes in many shapes and sizes. In the usual situation, it is paid in the form of wages from a business to a worker for services he or she performs on the job. However, at other times, an individual may owe tax on the value of services provided to someone else – even though no money actually changes hands. Take the situation presented in a new case.

The taxpayer is a handyman in California who has operated a business under the trade name “Bob’s Handyman Service” or “Right Way Services.” Over a period of several years, he and his family rented a home owned by a trust.

During 2012, the taxpayer fell behind on the monthly rent payments of \$1,000 owed to the trust. To avoid eviction, the taxpayer entered into an informal arrangement with the trustee whereby he agreed to provide repair and maintenance services for the trust in exchange for an offset in rent. This informal arrangement continued through 2012.

Based on the evidence in the case, the Tax Court concluded that the taxpayer received gross income in 2012 equal to the value of the services that he provided to the trust. This amount was applied as an offset against the rent that the taxpayer owed. In short, the trust accepted the taxpayer’s services in lieu of some or all of monthly rent payments — an indirect form of compensation equal to the value of the repair and maintenance services provided by the handyman.

At trial, the taxpayer argued that he should be permitted to exclude from tax the amount attributable to him as compensation under Section 119(a) of the tax code. That section says that that an employee may exclude the value of any lodging

furnished to him, his spouse, or dependents by or on behalf of his employer for the

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(Welemin, TC Summary Opinion 2017-54, 7/18/17).

It's difficult to sidestep the rules on taxable compensation, no matter what form it takes, unless you have evidence to support a qualified exception to the rules. Tell your clients to be aware that they may owe tax even when traditional wages aren't involved.

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