8 T.C. 1178 (1947)

A loss from a bad debt is deductible as a business loss if the debt arose in the ordinary course of the taxpayer's trade or business, and bears a proximate relationship to that business.

Summary

The Tax Court addressed whether a bad debt was a business or non-business debt for deduction purposes. Robert Cluett, a member of the New York Stock Exchange, sold a portion of his membership rights and received promissory notes in return. When the notes became uncollectible, Cluett claimed a business bad debt deduction. The Commissioner argued it was a non-business debt, subject to limitations. The court held that the debt was a business debt because it arose from the sale of an asset directly related to Cluett's business as a floor member and was proximately related to that business when it became worthless.

Facts

Robert Cluett was a member of the New York Stock Exchange (NYSE) since 1923. He used his membership as a floor member for various stock brokerage firms. In 1929, the NYSE increased its membership, granting each member the right to transfer a portion of an additional membership. Cluett sold this right to James Lowell for $125,000, receiving promissory notes for $65,000. Lowell later reduced the debt to $35,000 but subsequently went bankrupt. In 1943, Cluett received a small amount from the bankruptcy estate, leaving a balance of $28,985.97 worthless.

Procedural History

Cluett deducted the worthless debt as a business bad debt on his 1943 tax return. The Commissioner disallowed the deduction, treating it as a non-business bad debt subject to capital loss limitations. Cluett petitioned the Tax Court, contesting the Commissioner's determination.

Issue(s)

Whether the worthless debt arising from the sale of a portion of Cluett's NYSE membership rights constituted a

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