***Henry B. Dawson v. Commissioner, T.C. Memo. 1948-242***

When an individual purchases stock in a cooperative apartment building with both personal and business motives, the loss on the sale of that stock is deductible only to the extent that the purchase was motivated by business reasons.

**Summary**

The petitioner purchased stock in a cooperative apartment building, intending to live in one of the apartments and also profit from the rental of non-owner occupied units. When the stock was sold at a loss, the petitioner sought to deduct the entire loss as a business expense. The Tax Court held that because the petitioner had dual motives (personal residence and business investment) the loss could only be deducted to the extent it was attributable to the business motive. The court allocated the loss based on the rental value of owner-occupied versus non-owner occupied apartments.

**Facts**

Henry Dawson purchased stock in a cooperative apartment building. His primary motivation was to secure a residence for himself and his future wife. He was also motivated by the investment opportunity presented by the cooperative structure, where non-owner tenants would help amortize the mortgage, potentially reducing costs for owner-tenants and leading to a profit upon the stock's disposal. Dawson did not expect dividends on the stock. In 1944, Dawson sold the stock at a loss of $21,999 and sought to deduct this loss as a business expense.

**Procedural History**

The Commissioner of Internal Revenue disallowed the full loss deduction claimed by Dawson. Dawson petitioned the Tax Court for a redetermination of the deficiency. The Tax Court reviewed the evidence and determined the appropriate amount of the deductible loss.

**Issue(s)**

Whether the loss incurred on the sale of stock in a cooperative apartment building is fully deductible as a business loss when the stock was purchased with both personal and business motives.

**Holding**

No, because the petitioner's motives were dual (personal residence and business investment), the loss is deductible only to the extent attributable to the business motive. The Tax Court allocated the loss based on the percentages of the rental values of owner and non-owner apartments.

**Court's Reasoning**

© 2025 SCOTUSreports.com. All rights reserved. 

The court reasoned that to deduct the loss in its entirety, the petitioner had to demonstrate that the stock purchase was primarily for business reasons, specifically to make a profit on the investment, rather than to secure a personal residence. The court found the petitioner's motives were dual: providing a family residence and making a profitable investment. The court determined that a reasonable allocation between the business investment and the personal investment could be made based on the rental values of owner-occupied versus non-owner-occupied apartments. Since approximately 70% of the apartments' rental value was attributed to owner-tenants, and 30% to non-owner tenants, the court concluded that 30% of the loss was deductible as a business loss. The court considered and rejected the petitioner's proposed allocation method based on rental income from non-owner apartments.

**Practical Implications**

This case illustrates the importance of proving a predominant business motive when claiming a loss on the sale of an asset. When an asset is used for both personal and business purposes, taxpayers must be prepared to demonstrate the primary purpose for acquiring the asset to justify a full deduction. This decision provides a framework for allocating losses when dual motives exist, using a reasonable basis, such as rental values, to determine the deductible portion. Subsequent cases may cite this allocation methodology when dealing with similar mixed-motive asset acquisitions. It highlights the need for clear documentation of investment intent, especially when personal use is involved. Taxpayers contemplating similar investments should carefully document their business motivations to support potential loss deductions.

© 2025 SCOTUSreports.com. All rights reserved. 