17 T.C. 135 (1951)

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A taxpayer actively involved in multiple business ventures can deduct losses from a worthless debt as a business bad debt, rather than a nonbusiness bad debt, if the loan was proximately related to that business.

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Summary

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Weldon Smith, the petitioner, sought to utilize back pay treatment for a settlement from a former employer and to deduct a business bad debt. The Tax Court held that the settlement qualified as back pay under Section 107(d) of the Internal Revenue Code and allocated the settlement between principal and interest. The Court further held that Smith's loan to a cattle farm constituted a business bad debt because he was actively involved in multiple business ventures, not merely a passive investor. This active involvement allowed him to deduct the loss as a business expense.

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Facts

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Weldon Smith was employed as a general manager for Adam, Meldrum and Anderson Co. Inc. (A. M. & A.) under a 10-year contract. Due to disagreements, his duties diminished over time. A dispute arose concerning additional compensation based on

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