18 T.C. 198 (1952)

A secured debt becomes worthless for tax deduction purposes when the creditor effectively takes ownership and control of the collateral securing the debt, not necessarily when the collateral is formally liquidated.

Summary

Industrial Trust Co. sought a worthless debt deduction in 1943 related to a 1929 loan to Dutee W. Flint Co., secured by stock. Dutee became insolvent in 1930 and dissolved in 1933. The IRS disallowed the deduction, arguing the debt became worthless before 1943. The Tax Court agreed with the IRS, holding that Industrial Trust Co.'s actions, including taking dividends directly and selling stock without accounting to Dutee, indicated they had assumed ownership of the collateral well before 1943. The court emphasized that a taxpayer cannot claim a deduction in a later year simply because it suits their tax strategy; the deduction must be taken in the year the debt actually becomes worthless.

Facts

In 1929, Industrial Trust Co. loaned $850,000 to Dutee W. Flint Co. (Dutee), secured by Standard Oil of New York stock. Dutee became insolvent in 1930 and was dissolved in 1933. The stock value declined significantly after the loan was issued. Industrial Trust Co. received dividends on the stock and applied them to the interest on the debt. They also sold portions of the stock between 1936 and 1943, applying the proceeds to the principal. Industrial Trust Co. did not provide Dutee with the usual statements regarding dividends and sales. In 1943, the remaining stock was transferred from a collateral account to Industrial Trust Co.'s investment account, and a worthless debt deduction was claimed.

Procedural History

Industrial Trust Co. claimed a worthless debt deduction on its 1943 federal income tax return. The Commissioner of Internal Revenue disallowed the deduction. Industrial Trust Co. petitioned the Tax Court for review of the Commissioner's determination.

Issue(s)

Whether a secured debt becomes

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