Weil v. Commissioner, 27 T.C. 949 (1957)

A debt is considered a business bad debt, fully deductible for tax purposes, if it is proximately related to the taxpayer's trade or business; otherwise, it's a nonbusiness bad debt, subject to more limited deduction rules.

Summary

The case concerns a taxpayer, Weil, who sought to deduct a debt owed to him by a California corporation as a business bad debt. The Commissioner of Internal Revenue disallowed the deduction, arguing the debt was a nonbusiness bad debt. The Tax Court sided with Weil, finding that the loans he made to the California corporation were proximately related to his Buffalo business, and thus were business bad debts. The court distinguished this case from prior precedents, emphasizing that the loans facilitated the business relationship between Weil's company and the California corporation, and therefore were an integral part of his business activities.

Facts

Weil, operating a business in Buffalo, made loans to a California corporation. This corporation also purchased raw materials and merchandise from Weil's Buffalo business. When the California corporation became insolvent, it owed Weil money for both the loans and unpaid invoices for goods supplied. Weil sought to deduct the bad debts on his tax return as business bad debts. The Commissioner initially disallowed the deduction for the loans, but later conceded the deduction was proper for the unpaid invoices. The dispute centered on whether the loans qualified as business bad debts.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency, disallowing Weil's deduction for the debt owed by the California corporation. Weil challenged this determination in the U.S. Tax Court. The Tax Court ruled in favor of Weil, allowing the deduction as a business bad debt. The Commissioner did not appeal the Tax Court's decision.

Issue(s)

1. Whether the debt owed to Weil by the California corporation was a business bad debt or a nonbusiness bad debt.

Holding

1. Yes, the debt was a business bad debt because it was proximately related to Weil's Buffalo business.

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court relied on the

© 2025 SCOTUSreports.com. All rights reserved.