## *Black v. Commissioner, 52 T. C. 147 (1969)*

A nonbusiness debt must become entirely worthless to be deductible as a loss; partial worthlessness is not sufficient for a deduction.

### Summary

In Black v. Commissioner, the petitioners sold their personal residence and accepted a second mortgage note as part of the sale price. When the buyers defaulted, the petitioners agreed to a reduced payment in lieu of the original note. They then sought to deduct the difference as a partially worthless nonbusiness debt. The Tax Court held that since the property securing the note had sufficient value to cover both mortgages, the debt was not worthless in whole or in part. Therefore, no deduction was allowed under IRC section 166, emphasizing that only entirely worthless nonbusiness debts qualify for a deduction.

### Facts

The Blacks purchased a residence in 1962 for $54,500, intending to use it as their personal home. Health issues led them to sell the property shortly after purchase to the Roys for the same price. The Roys paid $7,000 in cash, assumed the existing $32,468. 19 first mortgage, and issued a $15,031. 81 second mortgage note to the Blacks. When the Roys defaulted on payments, the Blacks accepted $5,031. 81 in cash and a $6,306. 39 note secured by different property, totaling $11,338. 20. The Blacks then claimed a $3,693. 61 deduction as a partially worthless nonbusiness debt.

### Procedural History

The Commissioner of Internal Revenue disallowed the Blacks’ deduction, asserting it represented a reduction in the selling price of their personal residence. The Blacks petitioned the United States Tax Court for review, which heard the case and issued its decision in 1969.

### Issue(s)

1. Whether the $15,031. 81 nonbusiness debt became worthless in whole or in part during the taxable year 1963, allowing the Blacks to claim a deduction under IRC section 166?

### Holding

1. No, because the debt was not entirely worthless within the taxable year. The property securing the second mortgage had sufficient value to cover both the first and second mortgages, indicating the debt was not worthless.

### Court’s Reasoning

 

The court applied IRC section 166, which allows a deduction for nonbusiness debts only if they become entirely worthless within the taxable year. The court found the debt was not worthless because the Camelback property's value exceeded the combined amount of the first and second mortgages. The court emphasized that the Blacks' decision to accept a reduced payment did not establish the debt's worthlessness, citing regulations and case law that a debt's partial relinquishment does not make it deductible as partially worthless. The court also noted that the property's value, even after accounting for potential foreclosure expenses, still covered the debt, reinforcing that the debt was not worthless.

**Practical Implications**

This decision clarifies that nonbusiness debts must be entirely worthless to qualify for a deduction under IRC section 166. Practitioners should be cautious when clients attempt to claim deductions for nonbusiness debts based on partial reductions or settlements, as only total worthlessness will suffice. This ruling impacts how taxpayers should assess the value of collateral and the debtor's financial condition when considering a bad debt deduction. Subsequent cases have distinguished Black v. Commissioner by emphasizing the requirement of total worthlessness for nonbusiness debt deductions, reinforcing the importance of thorough valuation and documentation when pursuing such claims.

 