Bloomfield v. Commissioner, 52 T. C. 745 (1969)

A bankrupt's right to carry back a net operating loss to prebankruptcy years belongs to the trustee in bankruptcy, not the individual bankrupt.

Summary

Norris Bloomfield claimed a net operating loss from his jewelry business's bankruptcy in 1963, attempting to carry it back to prior years. The U. S. Tax Court held that the right to carry back the loss belonged to the trustee in bankruptcy under Section 70(a) of the Bankruptcy Act, not to Bloomfield. Additionally, Bloomfield was held jointly and severally liable for the full deficiency on the joint returns he filed with his former wife for the years in question, despite tentative refunds issued to her.

Facts

Norris Bloomfield operated Mutual Jewelry & Loan Co. as a sole proprietorship until filing for bankruptcy in 1963. At the time of filing, the business had assets of $136,684. 28 and liabilities of $62,975. 77. Bloomfield claimed a net operating loss of $73,708. 51 for 1963 on his separate return, attributing it to the business's net worth loss due to bankruptcy. He and his former wife, Ruth, who had filed joint returns for 1960-1962 and separate returns for 1963, each claimed half of this loss as a carryback to those earlier years and received tentative refunds accordingly.

Procedural History

The Commissioner of Internal Revenue disallowed the net operating loss deduction, resulting in a deficiency assessment for the carryback years. Bloomfield petitioned the U. S. Tax Court for review. The court affirmed the Commissioner's disallowance of the loss carryback to Bloomfield and upheld the full deficiency assessment against him, despite the refunds issued to Ruth.

Issue(s)

1. Whether the right to carry back a net operating loss to prebankruptcy years belongs to the individual bankrupt or the trustee in bankruptcy.
2. Whether Bloomfield is liable for the full deficiency assessed against the joint returns he filed with his former wife, despite the tentative refunds issued to her.

Holding

1. No, because under Section 70(a) of the Bankruptcy Act and the precedent set by *Segal v. Rochelle*, the right to the carryback of a net operating loss belongs to the trustee in bankruptcy as it is considered "property" of the bankrupt estate.
2. Yes, because under Section 6013(d)(3) of the Internal Revenue Code, Bloomfield is jointly and severally liable for the full deficiency on the joint returns, regardless of

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the refunds issued to his former wife.

Court’s Reasoning

The court relied heavily on *Segal v. Rochelle*, where the Supreme Court held that a net operating loss carryback is sufficiently rooted in the prebankruptcy past to be considered “property” under Section 70(a)(5) of the Bankruptcy Act, thus belonging to the trustee. The court rejected Bloomfield’s argument that the loss occurred later in 1963 when the assets were sold, stating that any loss from asset disposition belonged to the trustee. The court also applied the principle of joint and several liability under Section 6013(d)(3), holding Bloomfield fully responsible for the deficiency despite the refunds issued to Ruth, as there was no evidence the Commissioner knew of any financial disputes between them. The court suggested that Bloomfield’s recourse was to seek contribution from Ruth.

Practical Implications

This decision clarifies that in bankruptcy proceedings, the trustee, not the individual bankrupt, has the right to any net operating loss carryback to prebankruptcy years. This impacts how attorneys should advise clients on the potential tax benefits of bankruptcy, emphasizing the importance of considering the trustee’s role in tax matters. It also reinforces the principle of joint and several liability on joint tax returns, warning taxpayers of their full responsibility for deficiencies, regardless of refunds issued to their co-filing spouse. This case has been influential in subsequent tax and bankruptcy law cases, particularly in delineating the rights and responsibilities between trustees and individual bankrupts regarding tax attributes.

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