Robertson v. Commissioner, 55 T. C. 862 (1971)

A loss on the sale of property during a divorce can be deductible under Section 165 of the Internal Revenue Code if the transaction is entered into for profit.

Summary

In Robertson v. Commissioner, the Tax Court ruled that William Robertson could deduct a loss from selling his interest in a motel to his ex-wife as part of their divorce settlement. The key issue was whether this loss was deductible under Section 165(c) of the IRC, which allows deductions for losses incurred in transactions entered into for profit. The court found that the sale was at arm's length and not merely a property division, thus qualifying as a transaction entered into for profit. The decision underscores that personal motivations behind a sale do not necessarily negate the deductibility of a loss if the transaction itself is profit-driven.

Facts

William E. Robertson and his former wife, Lena, purchased the Ranch Inn Motel in Portland, Oregon, in 1964 for $150,000. They divorced in 1965, and as part of the settlement, Lena bought out William's interest in the motel for $5,000 plus the assumption of half of a $2,000 note. At the time of the sale, William's adjusted basis in the motel was $7,467. 63, resulting in a loss of $1,467. 63. William sought to deduct this loss on his 1965 federal income tax return.

Procedural History

The Commissioner of Internal Revenue disallowed the deduction, leading William to petition the Tax Court. The Tax Court heard the case and ruled in favor of William, allowing the deduction of the loss.

Issue(s)

1. Whether William Robertson sustained a loss on the disposition of his interest in the motel property.
2. Whether this loss is deductible under Section 165(c) of the Internal Revenue Code.

Holding

1. Yes, because the evidence showed that William sold his interest in the motel for $6,000, resulting in a loss of $1,467. 63 based on his adjusted basis of $7,467. 63.
2. Yes, because the transaction was entered into for profit, despite occurring within the context of a divorce settlement.

Court's Reasoning

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The Tax Court rejected the Commissioner's arguments that the loss was not deductible because it occurred within a property division or because William did not take all allowable depreciation. The court emphasized that the sale was negotiated at arm's length, similar to the transaction in United States v. Davis, where the Supreme Court recognized the tax implications of property transfers during divorce. The court also dismissed the Commissioner's contention that the transaction was not completed for profit, noting that personal reasons for selling do not negate the profit motive requirement of Section 165(c). The court cited cases like Terry v. United States to support its position that a transaction entered into for profit can still result in a deductible loss even if the completion is driven by personal needs. The court concluded that William's loss was deductible because it met the criteria under Section 165(c).

Practical Implications

This decision clarifies that losses from property sales during divorce can be deductible if the transaction is entered into for profit. It impacts how attorneys advise clients on the tax implications of divorce settlements, emphasizing the need to document the profit motive behind any property transfer. The ruling may influence how parties structure their divorce agreements to optimize tax outcomes. Subsequent cases have cited Robertson v. Commissioner to support the deductibility of losses in similar circumstances, reinforcing the principle that the context of a divorce does not inherently preclude the recognition of tax consequences from property transactions.

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