Return to when, what, how much of tax write-offs

MORE THAN
MONEY

for your 1995 income tex returns,
you may want to
consider whether
you have worthreturn. The
current of the cuestion is:
your tax return? The answer will
depend upon your particular facts
and circumstances.

Debt
A "debt" is an unqualified promise to pay a fixed or determinable sum of money. Although no one factor is determinative, a promissory note generally must be issued in exchange for consideration. If repayment is not expected when the "loan" is made, there is no debt.

Bad Debts — A bad debt is de-Red Debts — A bad debt is de-

ductible for tax purposes, but its tax treatment depends upon whether it is characterized as a business or a non-business bad debt.

business or a non-business bad debt.

A business bad debt is a business debt that has become worthless. A business debt is a debt created or acquired in connection with the trade or business of the tarpayer claiming the deduction or a debt the worthlessness of owhich is incurred in the tarpayer's trade or business. A business had sebt may be deducted without limitation from ordinary income in the year it becomes worthless. Any unused portion may be carried back as a net operating loss to offset ordinary income in previous years (thus creating tar refund opportunities). A business bad debt is deductible even if the debt is only partially worthless.

Exomple: Frank Jones, an employes (but not a shareholder) of XYZ Company, leared \$15,000 to the Company, As sume that Frank can establish that two-thirds of the lean became worthless in

1995. Frank can deduct \$10,000 in 1995 as business bad debt focuses the lean was proximate to Frank's trade or business as an employer (i.e., the loan was made to protect his job).

It will generally be more difficult for an employer dather holder of a company to claim a business bad debt deduction. Facts and circumstances — such as a signed note, maturity date, reasonable rate of interest, the employee's drawing of a salary, the fact that the loan is not unreasonable in relation to the salary, a company with a low debt-to-stock ratio, and ownership of a minority interest — all may strengthen the employee's case for claiming a business bad debt defection.

A non-business bad debt is any bad debt other than a business had the teleution.

A non-business bad debt is any bad debt of the than a business had debt in the salary teleuropital loss — deductible to the extent of capital gains about-term capital loss — deductible to the extent of capital gains pus \$3,000 of ordinary locome — and any excess may be carried forward and deducted in future years. Unlike business bad debt are de-

ductible only when they become totally worthleas.

Example: Geol Green makes at \$15,000 loan to a friend, Pet Smith, which is a non-business ban debt. Assume that Carol can establish that something of the loan became worthleas in 1995 and that the balance of the loan became worthleas in 1996. Carol is not allowed any deductions until 1996 when the debt is totally worthleas.

Guarnators of Bud Debts — When a guarantoe must satisfy a loan which he or she has guaranteed, the guarantor is entitled to a loan which he or she has guaranteed, the guarantor is not in the business of guaranteed loans or if the guarantor is not in the business of guaranteed loans is not related to the guarantor's trade or business of guarantee allows or the same so for the same so figuranteed loans is not related to the guarantor's trade or business of guarantor's trade or business of guarantor's trade or business of deduct the loss only as a non-business had debt.

Example: Quarantor is more constitution of the guaranteed loan is not related to the guarantor's trade or business had debt.

faulted, Jim mad, good on the guaran-tees and claimed a bad debt deduction, in such circumstances, the Tax Court-held that the guarantee to the bank was made to protect Jim's investment (i.e., a non-business bad dash) while the guar-antee it the friend was made to protect his salary and employment (i.e., a busi-ness bad debt). Planning Tim — if

Planning Tip — If you are forced to satisfy a guarantee obligation but do not have the cash available, you can immediately claim a bad debt deduction if you believe the funds to satisfy the obligation, but you cannot do so if you sign a note promising to poy the debt in the future.

Worthless Securities

Worthless Securities
When a security (e.g., a stock or
bond) that you own becomes completely worthless, you can deduct
the loss in that year by filing your
tax return as if you sold the stock
without any sales proceeds on the
last day of the tax year. As a rule
(with one exception), you will reognize a englial loss to the extent.
of your adjusted basis (i.e., gener-

ally the amount paid) for the security.

Special Statute of Limitations—A loss is allowed only for the taxable year in which it occurs. If you determine that either a had debt or a security became worthloss in a previous year, or the IRS determines that the loss occurred in a year other than the loss, there is a year districted the loss, there is a previous year, or the last of the loss, there is a previous year for the loss, there is a previous year from the year from the year from the second period of the previous from the case of the loss of the previous from t

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BUSINESS MILESTONES

This column highlights promo-tions, transfers, hirings, openings and other key business news with Farmington-area connections. Send a brief biographical summary—including the towns of resi-dency and employment and a photo, if possible, to: Businear Editor, Farmington Observer, 33411 Grand River, Farmington 48335. The Observer's fax number is (810) 477-5722. is (810) 477-9722.

Michael Maali, of Farmington
Hilla joins Coopers
& Lybrand's Detroit office as Business Assurance
Manager of the Retail and Distribution Industries
Group. He provides
clients traditional
assurance services Maali
as well as specialized retail industry consulting services.

try consulting services

David Tubeline of Farmington Hills has been appointed assist-ant vice president-manager of the

Disney Hanne Barbara

Production Cale Limited Edition Production Draw

Amerisure Companies Michigan Region, Tubolino will be respon-sible for all commercial lines op-

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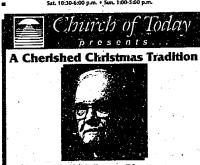


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