

Internal Revenue Code Section 166

Bad debts.

(a) General rule.

- (1) Wholly worthless debts. There shall be allowed as a deduction any debt which becomes worthless within the taxable year.
- (2) Partially worthless debts. When satisfied that a debt is recoverable only in part, the Secretary may allow such debt, in an amount not in excess of the part charged off within the taxable year, as a deduction.

(b) Amount of deduction. For purposes of subsection (a), the basis for determining the amount of the deduction for any bad debt shall be the adjusted basis provided in section 1011 for determining the loss from the sale or other disposition of property.

(c) Repealed.

(d) Nonbusiness debts.

(1) General rule. In the case of a taxpayer other than a corporation—

(A) subsection (a) shall not apply to any nonbusiness debt; and

(B) where any nonbusiness debt becomes worthless within the taxable year, the loss resulting therefrom shall be considered a loss from the sale or exchange, during the taxable year, of a capital asset held for not more than 1 year.

(2) Nonbusiness debt defined. For purposes of paragraph (1), the term "nonbusiness debt" means a debt other than—

(A) a debt created or acquired (as the case may be) in connection with a trade or business of the taxpayer; or

(B) a debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business.

(e) Worthless securities. This section shall not apply to a debt which is evidenced by a security as defined in section 165(g)(2)(C).

(f) Cross references.

- (1) For disallowance of deduction for worthlessness of debts owed by political parties and similar organizations, see section 271.
- (2) For special rule for banks with respect to worthless securities, see section 582.