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### 10 TIPS TO DEDUCT NON-BUSINESS BAD DEBTS

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Uncollectible debts may produce tax-deductible losses. These losses can be classified either as business or nonbusiness bad debts. We will devote this article to **Nonbusiness (personal) bad debts**.

Let me give you **10 tips to get a better chance of deducting non-business bad debts**:

1. Draw up a **written promissory note**.
2. Include provisions for **adequate stated interest**.
3. Include specific **payment terms**.
4. Provide for **security** whenever possible.
5. Maintain records showing that borrower was **solvent** at the time of the loan.
6. Maintain **records** showing payments of principal and interests.
7. Show the transaction as loan on your **books** that you and borrower maintain.
8. If the loan goes bad, make a **formal demand** for a payment.
9. Obtain evidence showing that borrower first became **insolvent in the year you claimed the bad debt loss**.
10. Use **checks** with “loan” notation. Never use cash.

This is all for now. Good luck!