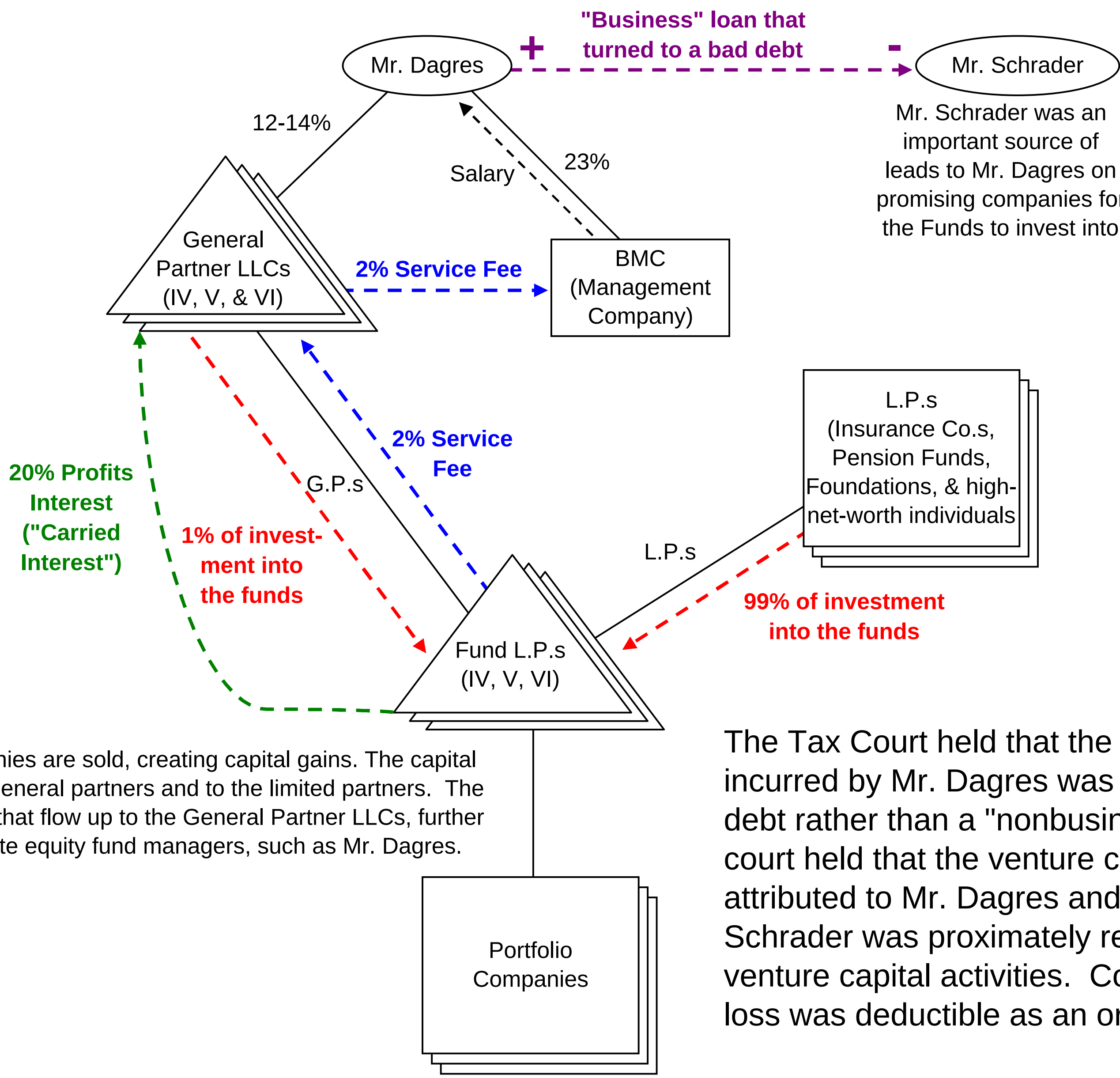
Dagres v. Commissioner
136 T.C. No 12 (2011)

Business Bad Debt Deduction For Private Equity Fund Manager



The portfolio companies are sold, creating capital gains. The capital gains flow up to the general partners and to the limited partners. The 20% of capital gains that flow up to the General Partner LLCs, further flow up to the private equity fund managers, such as Mr. Dagres.

The Tax Court held that the bad debt expense incurred by Mr. Dagres was a "business" bad debt rather than a "nonbusiness" bad debt. The court held that the venture capital business was attributed to Mr. Dagres and his loan to Mr. Schrader was proximately related to those venture capital activities. Consequently, the loss was deductible as an ordinary loss.