***Feinstein v. Commissioner*, 25 T.C. 664 (1956)**

Taxpayers bear the burden of proving their entitlement to deductions, including establishing the occurrence of an identifiable event that caused a loss, as well as the value of the assets at the time of the alleged loss and recovery.

Summary

The Feinstein case concerns a dispute over war loss deductions claimed by the taxpayers for bonds issued by a foreign government. The IRS disallowed the deductions, arguing that the taxpayers failed to meet their burden of proving that the bonds became worthless in the year they claimed the loss. The Tax Court agreed with the IRS, holding that the taxpayers failed to provide sufficient evidence of the bonds' value, recovery, and the occurrence of an identifiable event causing the loss. The court emphasized the importance of providing credible evidence to support a claim for a tax deduction.

Facts

The Feinsteins owned bonds that became worthless due to war in 1941. They claimed a war loss deduction, asserting that the bonds were "recovered" in 1945, had value at that time, and then became worthless again in 1947. The IRS challenged the deduction, arguing that the taxpayers failed to prove the bonds' value, recovery (including possession), and the identifiable event causing the 1947 loss.

Procedural History

The IRS disallowed the Feinsteins' claimed war loss deduction. The Feinsteins then petitioned the United States Tax Court to challenge the IRS's determination.

Issue(s)

1. Whether the taxpayers met their burden of proving the value of the bonds in 1945.

2. Whether the taxpayers met their burden of proving an identifiable event in 1947 that caused the bonds to become worthless.

Holding

1. No, because the taxpayers did not present sufficient evidence to establish the value of the bonds in 1945.

2. No, because the taxpayers failed to prove an identifiable event in 1947 that made the bonds worthless.

Court’s Reasoning

The court’s reasoning centered on the principle that taxpayers have the burden of proving their entitlement to claimed deductions. The court stated that the taxpayers had to demonstrate that the bonds had value in 1946 and that an “identifiable event” occurred in 1947 causing the loss. The court found that the taxpayers presented insufficient evidence regarding the value of the bonds, particularly in 1946, and failed to establish an identifiable event in 1947 that made the bonds worthless. The court pointed out that the testimony provided was general and self-serving. The court relied on prior cases such as *San Joaquin Brick Co. v. Commissioner* and *Estate of Wladimir Von Dattan*.

The court referenced testimony from a European banker who stated there was no market for bonds owned by Americans after 1941, which was damaging to the taxpayer’s claim. The court also dismissed the taxpayer’s testimony regarding a treaty and governmental changes as not providing the required “identifiable event” because the testimony was in general terms and came from an interested party.

Practical Implications

This case highlights the stringent requirements for substantiating tax deductions, especially those involving complex or unusual circumstances such as war losses. It underscores the importance of:

- Gathering and presenting credible evidence.
- Proving value at relevant points in time.
- Identifying a specific event that triggers the claimed loss.
- Avoiding reliance on general, unsubstantiated statements.

Attorneys dealing with similar tax disputes must advise their clients to maintain detailed records and documentation to support their claims. It is essential to provide concrete evidence to support the existence of both value and an identifiable event causing the loss. The decision emphasizes that self-serving testimony alone is often insufficient.

