***29 T.C. 601 (1957)***

When the IRS determines a deficiency based on bank deposits, the taxpayer bears the burden of proving that the deposits do not represent taxable income.

**Summary**

The Commissioner of Internal Revenue determined deficiencies in income tax and additions to tax for fraud against Thomas B. Jones and his wife for the years 1943 through 1948 based on unexplained bank deposits. The Tax Court addressed whether the statute of limitations barred the deficiencies for the years 1943-1945 and whether the deposits constituted unreported income and were due to fraud. The court held that the statute of limitations barred the deficiencies for 1943-1945 because the Commissioner failed to prove fraud. It further held that Jones failed to prove that the deposits for 1946-1948 did not represent unreported income and upheld the deficiencies for those years. However, the court also found that the Commissioner failed to prove that any part of the 1946 or 1947 deficiencies were due to fraud.

**Facts**

Thomas B. Jones and Margaret A. Jones operated a soft-drink bottling company. The Commissioner determined deficiencies based on bank deposits not reflected in the company's books. For 1943-1945, the statute of limitations had run unless the returns were fraudulent. The Joneses opened a personal bank account in 1943 and made substantial cash deposits. They claimed the deposits represented savings and gifts accumulated over many years. The Commissioner argued these deposits represented unreported income from the bottling business. The Joneses provided testimony and evidence to support the origin of the cash. The Commissioner's investigation revealed that some deposits included receipts related to the bottling business.

**Procedural History**

The Commissioner of Internal Revenue assessed deficiencies against the taxpayers for the years 1943 through 1948. The Joneses petitioned the United States Tax Court to challenge the deficiencies and additions to tax for fraud. The Tax Court consolidated the cases and heard the evidence. The Tax Court made a finding that decisions would be entered under Rule 50.

**Issue(s)**

1. Whether the assessment and collection of the deficiencies for the years 1943, 1944, and 1945 were barred by the statute of limitations?

2. Whether the bank deposits in the years 1943 through 1948, not shown on any books of account, reflected the receipt of unreported income?

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3. Whether any part of the deficiency for each of the years involved was due to fraud with intent to evade tax?

**Holding**

1. No, the statute of limitations barred the assessment and collection of the deficiencies for the years 1943, 1944, and 1945 because the Commissioner failed to carry the burden of proving that the 1943, 1944, and 1945 returns were false and fraudulent with intent to evade tax.

2. Yes, the petitioners have failed to prove that the deposits in controversy did not constitute unreported income, and the respondent's determinations of deficiencies for those years are approved for the years 1946 and 1947.

3. No, the Commissioner failed to prove that any part of the deficiency for either 1946 or 1947 was due to fraud with intent to evade tax.

**Court's Reasoning**

The court emphasized that the burden of proof rested on the taxpayer to show that the Commissioner's determination of income based on bank deposits was incorrect. The court recognized that the mere existence of unexplained bank deposits did not automatically prove unreported income. The taxpayers attempted to demonstrate that the deposits stemmed from pre-1943 savings, gifts, and other sources of non-taxable cash. The court found the evidence presented by the Joneses insufficient to overcome the Commissioner's determination, particularly regarding the substantial gift allegedly received from Margaret's mother, and the proceeds from a cleaning and pressing shop. The court scrutinized the documentary evidence and the Joneses' testimony regarding the source of funds. The court determined that the evidence did not support the Joneses' claims, and that the Commissioner had properly assessed taxes on the unexplained deposits.

The court acknowledged that some adjustments were appropriate, but the remaining unexplained deposits were considered unreported income. The court did not find sufficient evidence of fraud to overcome the statute of limitations for the 1943-1945 tax years.

**Practical Implications**

This case illustrates the importance of maintaining detailed financial records, especially when dealing with cash transactions. Taxpayers must be prepared to provide clear documentation and credible explanations for all bank deposits, particularly when the IRS raises questions. This case emphasizes that when the IRS determines that bank deposits represent unreported income, the burden falls on the taxpayer to rebut the presumption that the deposits are taxable income. To successfully defend against an IRS assessment based on bank deposits, taxpayers must provide evidence, such as receipts, records, and credible testimony, to

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demonstrate a non-taxable source for the funds.

This case also highlights that the Commissioner must prove fraud if seeking to overcome the statute of limitations.

**Meta Description**

Tax Court case establishing the taxpayer’s burden to prove the source of bank deposits when the IRS alleges unreported income. Without sufficient evidence, the IRS’s assessment of tax liability is upheld.

**Tags**

Jones v. Commissioner, U.S. Tax Court, 1957, Bank Deposits, Burden of Proof, Unreported Income, Fraud

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