Tokarski v. Commissioner, 87 T. C. 74 (1986)

A bank deposit is prima facie evidence of income, and the taxpayer bears the burden of proof to show it is not taxable unless the IRS must first link the taxpayer to an income-producing activity.

Summary

In Tokarski v. Commissioner, the Tax Court ruled that a $30,000 cash deposit by John Tokarski into a bank account was taxable income. The court held that the IRS was not required to link Tokarski to an income-producing activity before he had to prove the money's non-taxable nature. Tokarski claimed the funds were a gift from his late father, but the court found his evidence unconvincing. The decision underscores the principle that unexplained cash deposits are presumed to be income, with the burden on the taxpayer to prove otherwise, and highlights the court's scrutiny of self-serving testimony.

Facts

John Tokarski deposited $30,000 in cash into a Certificate of Deposit at Manufacturer's Hanover Bank on July 27, 1981. He did not report this amount as income on his 1981 tax return. Tokarski claimed the money was a gift from his deceased father, who had accumulated cash stored in a cigar box at home. Tokarski's mother testified that she gave him the money on his 27th birthday as per her late husband's instructions. Tokarski stated he was unemployed and had never worked, living off support from his mother and uncles.

Procedural History

The Commissioner of Internal Revenue determined a deficiency in Tokarski's 1981 federal income tax and assessed penalties for negligence. Tokarski petitioned the United States Tax Court for redetermination. The court held a trial and issued its opinion on July 14, 1986.

Issue(s)

1. Whether a bank deposit constitutes taxable income.
2. Whether the taxpayer is liable for additions to tax for negligence or intentional disregard of rules and regulations.

Holding

1. Yes, because a bank deposit is prima facie evidence of income, and the taxpayer failed to carry his burden of proof to show the $30,000 was not taxable income.
2. Yes, because the taxpayer failed to carry his burden of proof regarding the additions to tax under section 6653(a)(1) and (2).

© 2025 SCOTUSreports.com. All rights reserved.

Court’s Reasoning

The court applied the rule that a bank deposit is prima facie evidence of income, as established in Estate of Mason v. Commissioner. Tokarski’s claim that the money was a gift from his father was unsupported by corroborative evidence, such as testimony from his uncles or records showing his father’s cash at death. The court found Tokarski’s and his mother’s testimonies unconvincing, particularly given the lack of credible explanation for his unemployment and the delay in depositing the money. The court distinguished this case from others like Llorente v. Commissioner, where the IRS had to link the taxpayer to an income-producing activity, noting that in Tokarski’s case, the receipt of funds was undisputed. The court concluded that the IRS did not need to prove a link to an income source before Tokarski had to prove the non-taxable nature of the deposit.

Practical Implications

This decision reinforces the principle that taxpayers must substantiate claims of non-taxable income, especially when dealing with large cash deposits. Practitioners should advise clients to maintain thorough records and corroborative evidence for any significant financial transactions, particularly those involving cash. The ruling impacts how tax professionals approach cases involving unexplained income, emphasizing the importance of credible testimony and documentary evidence. It also affects how the IRS handles such cases, potentially reducing the burden on them to investigate income sources before assessing tax liabilities. Subsequent cases, such as Anastasato v. Commissioner, have further explored the boundaries of when the IRS must prove a link to income-producing activities.

© 2025 SCOTUSreports.com. All rights reserved.