94 T.C. 654 (1990)

In unreported income tax deficiency cases, the taxpayer bears the burden of disproving the IRS's determination, especially when alleging a non-taxable source for deposited funds; the IRS is not obligated to prove a likely taxable source unless fraud penalties are sought, in which case they may alternatively disprove the taxpayer's claimed non-taxable source.

Summary

Ruth Parks, an IRS employee, was audited for unreported income in 1983 and 1984. The IRS used the bank deposits and cash expenditures method to reconstruct her income, revealing substantial unexplained cash deposits and expenditures. Parks claimed the funds were from a cash hoard of child support payments. The Tax Court upheld the IRS's deficiency determination, finding Parks' testimony incredible and unsubstantiated. The court ruled that while the IRS must prove fraud by clear and convincing evidence for penalties, in deficiency cases, the taxpayer must disprove the IRS's income reconstruction, especially when alleging a non-taxable source. The court also sustained fraud penalties due to Parks' attempts to conceal income and inconsistent explanations.

Facts

Petitioner Ruth Parks worked for the IRS and received wages via checks, which were deposited and reported as income. During 1983 and 1984, Parks made substantial cash deposits into bank accounts and significant cash expenditures, including purchasing cashier's checks to buy and later pay off a Cadillac. These cash transactions, totaling $11,635 in 1983 and $8,585 in 1984 in deposits alone, were not reported as income. Parks initially stated she received no child support during the audit. Later, she claimed the cash originated from a $40,000 cash hoard accumulated from child support payments from her ex-husband, kept in a metal box at home for years.

Procedural History

The IRS determined deficiencies and fraud penalties for 1983 and 1984. Parks petitioned the Tax Court, contesting the unreported income and penalties. The cases for 1983 and 1984 were consolidated. The Tax Court upheld the IRS's deficiency determination and fraud penalties.

Issue(s)

1. Whether cash deposits and expenditures made by Parks in 1983 and 1984 constituted unreported income from an unidentified source.
2. Whether Parks was liable for additions to tax for fraud for 1983 and 1984.
3. Whether Parks was liable for a section 6661 addition to tax for substantial understatement of income tax for 1984.

© 2025 SCOTUSreports.com. All rights reserved.

Holding

1. Yes, because Parks failed to disprove the IRS's determination that the cash deposits and expenditures represented unreported income, and her explanation of a cash hoard was not credible.
2. Yes, because the IRS presented clear and convincing evidence of fraud, including Parks' concealment efforts, inconsistent statements, and implausible explanation of income source.
3. Yes, because Parks substantially understated her income tax for 1984, and did not demonstrate any exception under section 6661.

Court's Reasoning

The Tax Court reasoned that the IRS's use of the bank deposits and cash expenditures method was appropriate for reconstructing income when a taxpayer's accounting method doesn't clearly reflect income. Bank deposits are prima facie evidence of income. Parks, as the taxpayer, had the burden to prove the IRS's determination incorrect. The court found Parks' testimony about a $40,000 cash hoard from child support implausible, inconsistent, and unsupported by credible evidence. The court noted inconsistencies in her testimony and her witness's testimony, and found it illogical that she would hoard cash while maintaining bank accounts for her legitimate income. Regarding fraud, the court acknowledged the IRS's burden to prove both an underpayment and fraudulent intent by clear and convincing evidence. The court found the IRS met this burden by disproving Parks' alleged non-taxable source of income and demonstrating badges of fraud, including concealment of cash transactions to avoid currency transaction reports, inconsistent statements to IRS agents, and failure to cooperate with investigators. The court emphasized that when a taxpayer alleges a non-taxable source, the IRS can meet its burden for proving underpayment in fraud cases by disproving that specific non-taxable source, as was done here.

Practical Implications

Parks v. Commissioner reinforces the taxpayer's significant burden in tax deficiency cases, particularly when disputing income reconstructed by the IRS. It highlights that claiming a non-taxable source of funds doesn't automatically shift the burden to the IRS to prove a taxable source in deficiency cases. However, when fraud penalties are at issue, the IRS *must* prove an underpayment and fraudulent intent. This case clarifies that in fraud cases involving unreported income, the IRS can prove the underpayment element by either identifying a likely taxable source *or* by disproving the taxpayer's alleged non-taxable source. For legal practitioners, this case underscores the importance of advising clients to maintain thorough financial records and provide consistent, credible explanations regarding their income sources, especially when cash transactions are involved. It also serves as a cautionary tale about the severe consequences of attempting to conceal income and providing false or inconsistent statements to tax authorities, which can lead to fraud

© 2025 SCOTUSreports.com. All rights reserved.

penalties.

© 2025 SCOTUSreports.com. All rights reserved.