Parks v. Commissioner, 94 T. C. 671 (1990)

The taxpayer bears the burden of proving the IRS's determination of unreported income using the bank deposits and cash expenditures method is incorrect.

Summary

In Parks v. Commissioner, the Tax Court held that the taxpayer, who was an IRS employee, had unreported income from unidentified sources in 1983 and 1984, totaling $36,210 and $11,081 respectively. The IRS used the bank deposits and cash expenditures method to reconstruct income, which the court found reliable. The taxpayer claimed the cash came from child support payments but failed to provide credible evidence. The court also found the taxpayer liable for fraud penalties due to intentional concealment of income and for a substantial understatement of income tax for 1983.

Facts

Parks was an IRS employee in Memphis, Tennessee, during 1983 and 1984. She made cash deposits and expenditures not reported as income, totaling $36,210 in 1983 and $11,081 in 1984. Parks purchased a Cadillac using cashier's checks and paid off the balance with additional cash. She claimed these funds were child support from her ex-husband, James W. Parks, including a $40,000 lump sum in 1980. However, she provided no credible evidence, and her ex-husband did not testify. Parks also invoked the Fifth Amendment during the investigation.

Procedural History

The IRS determined deficiencies and fraud penalties for Parks' 1983 and 1984 tax returns. The case was consolidated into two docket numbers due to similar issues but different tax years. After an audit and a Criminal Investigation Division (CID) review, which Parks did not cooperate with, the case proceeded to the Tax Court. The court upheld the IRS's determination of unreported income and fraud penalties.

Issue(s)

1. Whether cash deposits and expenditures made by Parks during 1983 and 1984 constituted unreported income from an unidentified source?
2. Whether Parks is liable for the additions to tax for fraud for the years 1983 and 1984?
3. Whether Parks is liable for a section 6661 addition to tax for a substantial understatement of income tax for the taxable year 1983?

Holding

1. Yes, because Parks failed to prove the IRS's determination using the bank deposits and cash expenditures method was incorrect.

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2. Yes, because the IRS proved by clear and convincing evidence that Parks underreported income and intended to evade taxes.
3. Yes, because Parks's underpayment for 1983 exceeded the threshold for a substantial understatement of income tax under section 6661.

Court's Reasoning

The court applied the rule that when a taxpayer's method of accounting does not clearly reflect income, the IRS may recompute income using the bank deposits and cash expenditures method. Parks had the burden to prove the IRS's determination incorrect, which she failed to do. Her claim of cash child support payments was deemed implausible due to lack of credible evidence and inconsistencies. The court cited Holland v. United States and Nicholas v. Commissioner to support the use of the bank deposits method and the burden of proof on the taxpayer. For the fraud penalty, the court found that the IRS met its burden of proving an underpayment and fraudulent intent through Parks's concealment of income and inconsistent statements. The substantial understatement penalty was upheld because Parks's underpayment for 1983 was significant and she had no authority for her position.

Practical Implications

This case reinforces the principle that taxpayers bear the burden of disproving the IRS's determination of unreported income when the bank deposits method is used. It highlights the importance of providing credible evidence to support claims of nontaxable income sources. For legal practitioners, this case underscores the need to thoroughly document any nontaxable income and be wary of structuring transactions to avoid reporting requirements, as such actions may be seen as badges of fraud. The decision also serves as a reminder of the potential for fraud and substantial understatement penalties when unreported income is at issue. Subsequent cases have cited Parks in affirming the burden of proof on taxpayers in similar circumstances.

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