**OFFICE OF TAX APPEALS**

**STATE OF CALIFORNIA**

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| In the Matter of the Appeal of: | OTA Case No. 18010837 |
| **HOMAYOUN NAMVAR AND** | Date Issued: September 5, 2019 |
| **KATAYOUN KOHAN** | |

## OPINION

Representing the Parties:

For Appellant: S. Syd Rahe, Esq.

For Respondent: David Hunter, Tax Counsel IV

For Office of Tax Appeals: Matthew D. Miller, Tax Counsel III

K. GAST, Administrative Law Judge: Pursuant to Revenue and Taxation Code (R&TC) section 19324, Homayoun Namvar and Katayoun Kohan (appellants) appeal an action by respondent Franchise Tax Board (FTB) denying their claim for refund of additional tax of $196,524, plus penalties and interest, for the 2008 tax year. Appellants waived their right to an oral hearing. Therefore, this matter is being decided based on the written record.

## ISSUE

Whether appellants are entitled to a nonbusiness bad debt deduction.

## FACTUAL FINDINGS

1. FTB audited appellants' joint 2008 California resident income tax return and issued a Notice of Proposed Assessment (NPA) that proposed additional tax and interest. The NPA disallowed, among other adjustments, a nonbusiness bad debt deduction of $1.8 million related to loans Mr. Homayoun Namvar (appellant-husband) allegedly made to Namco Capital Group, Inc. (Namco).
2. Appellants untimely protested the NPA, which went final. Due to FTB's collection activities, appellants paid the balance due in full, including penalties imposed after the issuance of the NPA.

3. Appellants filed a claim for refund, requesting abatement of penalties, fees, and interest.[1] They did not request a refund of additional tax related to the disallowed bad debt deduction.
4. FTB denied appellants' refund claim in a Notice of Action (NOA).
5. Appellants appealed the NOA to the Board of Equalization (BOE), the Office of Tax Appeals' (OTA) predecessor. In their appeal letter, appellants, for the first time, requested a refund of additional tax related to the disallowed bad debt deduction. They also contended the deduction should be $1,890,456.19, instead of the $1.8 million claimed on their return. Although appellants did not raise this issue in their original refund claim, the BOE granted the parties' request to defer proceedings so that FTB could consider it on appeal. FTB ultimately denied the claim because appellants did not establish there was a bona fide debt or debtor-creditor relationship between appellant-husband and Namco. Appellants appealed this second refund claim denial to the BOE.
6. Appellants' two refund claim appeals—the first related to the NOA[2] and the second related to the bad debt deduction[3]—were consolidated by the BOE.[4]

## DISCUSSION

### A. Burden of Proof

An income tax deduction is a matter of legislative grace, and taxpayers who claim such a deduction have the burden of proving, by a preponderance of the evidence, they are entitled to it. (*New Colonial Ice Co. v. Helvering* (1934) 292 U.S. 435, 440; Cal. Code Regs, tit. 18, §

[1] The penalties relate to the late payment penalty imposed under R&TC section 19132, and the underpayment of estimated tax penalty imposed under R&TC section 19136. The fee relates to a lien fee imposed under R&TC sections 19221 and 19209 for FTB's cost of processing lien documents on its tax collection efforts.

[2] In their most recent appeal letter, dated May 2, 2018, appellants state that they "reserve their rights to the abatement of interest and penalties in the event that the bad debt deduction is allowed." Because we find appellants cannot claim the deduction, and they do not otherwise state specific grounds on which they are entitled to abatement of interest and penalties, we do not discuss this matter further.

[3] As mentioned, on appeal, appellants also seek an additional bad debt deduction of $90,456.19 (i.e., from $1.8 million to $1,890,456.19). Although FTB's second refund claim denial notice, dated November 9, 2016, is based on the $1.8 million deduction and not the higher amount, we do not find FTB was granting a deduction of $90,456.19. Rather, based on all the briefing, it seems clear FTB denied any bad debt deduction related to the purported Namco loan. We will refer to the larger $1,890,456.19 amount in this opinion, as the context requires.

[4] OTA has jurisdiction to hear and decide this matter under California Code of Regulations, title 18, section 30106.

30219(c).)[5] On a refund claim, appellants must not only prove that the tax paid was incorrect, but they must also produce evidence to establish the proper amount of tax due, if any. (*Dicon Fiberoptics, Inc. v. Franchise Tax Bd.* (2012) 53 Cal.4th 1227, 1235.) Unsupported assertions are insufficient to satisfy a taxpayer's burden of proof. (*Appeal of Magidow* (82-SBE-274) 1982 WL 11930.)

B. Applicable Law

Internal Revenue Code (IRC) section 166, to which California conforms under R&TC section 17201, allows a deduction for a nonbusiness debt that becomes worthless within the taxable year. (IRC, § 166(d).)[6] A "nonbusiness debt" means a debt other than a debt created or acquired in connection with the taxpayer's trade or business, or a debt the loss from the worthlessness of which is incurred in the taxpayer's trade or business. (IRC, § 166(d)(2).) In general, a nonbusiness bad debt is considered a short-term capital loss that is allowed as a deduction to a taxpayer other than a corporation, when such a debt becomes entirely worthless. (IRC, § 166(d)(1).) Appellants treated the loans in question as nonbusiness on their return.

Only a bona fide debt qualifies for purposes of the bad debt deduction. (Treas. Reg. § 1.166-1(c).) A "bona fide debt" is defined as "a debt which arises from a debtor-creditor relationship based upon a valid and enforceable obligation to pay a fixed or determinable sum of money." (*Ibid*.) If the existence of a genuine debt cannot be established, the advance of funds, if any, may be considered a gift or a capital contribution, either of which is not a debt. (*Ibid*.) Whether a bona fide debtor-creditor relationship exists is a question of fact to be resolved in light of all the pertinent facts. (*Fisher v. Commissioner* (1970) 54 T.C. 905, 909.)

[5] A preponderance of the evidence means the taxpayer must establish by documentation or other evidence that the circumstances it asserts are more likely than not to be correct. (*Concrete Pipe and Products of California, Inc. v. Construction Laborers Pension Trust for Southern California* (1993) 508 U.S. 602, 622.)

[6] R&TC section 17024.5(d) provides that when applying the IRC for California Personal Income Tax Law purposes, federal regulations (temporary or final) issued by "the secretary" shall be applicable as California regulations to the extent they do not conflict with the R&TC or regulations issued by FTB. Further, it is well-settled that where federal law and California law are the same, federal rulings and regulations dealing with the IRC are persuasive authority in interpreting the applicable California statute. (See *J. H. McKnight Ranch v. Franchise Tax Bd.* (2003) 110 Cal.App.4th 978, fn.1, citing *Calhoun v. Franchise Tax Bd.* (1978) 20 Cal.3d 881, 884.)

C. Analysis

Appellants contend they are entitled to a bad debt deduction of $1,890,456.19.[7] This amount consists of the following funds purportedly loaned to Namco: (1) $173,456.19 on January 16, 2007; (2) $1 million via wire transfer on May 2, 2008; and (3) $717,000 from Trifish, LLC (Trifish), at appellant-husband's authorization, on September 12, 2008. On December 22, 2018, certain creditors filed an involuntary petition for relief against Namco in the United States Bankruptcy Court, resulting in the purported loans becoming worthless. This event gave rise to the original claimed bad debt deduction of $1.8 million, which FTB disallowed in full.

The loans allegedly resulted from a long-standing debtor-creditor relationship between appellant-husband and Namco, a corporation in the real estate business.[8] Namco was part of a complex organizational structure, consisting of over 400 limited liability companies (LLCs), including Trifish, which were typically used to hold legal title to real estate acquired with funds from third-party investors. Namco was wholly-owned by appellant-husband's brother, Ezri Namvar (Ezri). The LLCs were directly and/or indirectly owned via controlling interests by appellant-husband, Ezri, and other family members.

Appellant-husband contends that between July 1, 1998 and September 12, 2008, he and Namco loaned and repaid each other various amounts. At times, appellant-husband was the debtor and Namco was the creditor, and at other times, the debtor-creditor relationship was reversed. However, as discussed below, we find appellants have failed to substantiate they loaned money to Namco. We analyze each item of relevant evidence submitted by appellants to explain our conclusion.

Quick Report

Appellants produced a two-page QuickReport[9] that they term the "Namco Accounts Receivable Ledger." They contend the QuickReport is a business record generated by Namco, and the 62 listed transactions are an accurate accounting of the back-and-forth lending between

[7] Appellants do not explain the discrepancy between the $1.8 million bad debt deduction claimed on their 2008 return and the $1,890,456.19 they seek on appeal.

[8] It appears appellant-husband made the purported loans to Namco to purchase real estate.

[9] A "QuickReport" is a spreadsheet generated by an accounting software primarily geared towards small and medium-sized businesses.

Namco and appellant-husband between July 1, 2008 and September 12, 2008. They assert the following three entries are proof of a bona fide debt Namco owed to appellant-husband: (1) on January 16, 2007, there was a balance due of $173,456.19; (2) on May 2, 2008, the balance due increased by $1 million to $1,173,456.19; and (3) on September 12, 2008, the balance due increased by $717,000 to $1,890,456.19.

"Bookkeeping and other related records, however, are not sufficient in and of themselves, without further substantiating evidence, to establish that a bona fide debtor-creditor relationship did in fact exist." (*Delta Plastics Corp. v. Commissioner* (1970) 54 T.C. 1287, 1292.) "It is well established that no deduction for a bad debt or a loss is available to a cash method taxpayer unless the taxpayer has made an outlay of cash or of property having a cash value." (*Crown v. Commissioner* (1970) 77 T.C. 582, 592.) Here, appellants have not provided any source documents, such as bank statements, wire transfer receipts, or copies of cashed checks to substantiate the transactions listed in the QuickReport.[10] Moreover, even if, as appellants assert, they did not have access to Namco's business records after the bankruptcy filing on December 22, 2008, they did have access to their own financial records. Simply stated, appellants have failed to produce credible evidence showing a cash transfer of the purported loans from them to Namco.

Namco Chapter 11 Bankruptcy and Adversarial Proceedings

On December 22, 2008, a group of Namco's largest creditors forced it into involuntary Chapter 11 bankruptcy (Namco Bankruptcy Case). Appellants submitted several filings from the Namco Bankruptcy Case to support their assertion that they are entitled to a bad debt deduction.

Appellants provided a document entitled "First Financial Report of the Chapter 11 Trustees" (Financial Report), dated February 26, 2010, that was authored by court-appointed trustees of the Namco Liquidating Trust (trustees) and submitted to the bankruptcy judge. The Financial Report, among other things, contains various exhibits reporting a principal balance of $1,890,456 allegedly owed by Namco to appellant-husband, or an alternative amount owed of $2,052,064.[11] Appellants assert this evidence is "uncontroverted, and is the best evidence of

[10] We also note that an accounts "receivable" ledger typically shows the amounts due to the entity, not the amounts owed by the entity, such as in an accounts "payable" ledger.

[11] This figure appears to be the sum of various amounts, based on Namco's records, purportedly owed to appellant-husband from the myriad of LLCs, of which he was a direct and/or indirect member.

what Namco had on its books and records regarding the principal amount of $1,890,456.00 that Namco owed to [appellant-husband]." We disagree.

The Financial Report was largely incomplete and its findings were preliminary. The trustees merely completed a "*tentative* accounting analysis of the funds flowing in and out of Namco" as of February 2010. (Italics added.) The Financial Report did not consider the books and records of the hundreds of LLCs because the trustees were not yet in possession of them. The trustees acknowledged the information contained in the exhibits, on which appellants rely, had not been fully researched: "Following further analysis, the amounts due to and from Ezri's brothers and sisters may change." The trustees observed that the Namvar family, including appellant-husband, "had extensive dealings with Namco individually and through a multitude of LLCs and other related companies," and "[i]t was the practice of Namco to be rather careless in collecting interest on funds loaned to family members and entities." The trustees "agreed to [have] further meetings with Ezri's brothers in order to understand their assessment and interpretation of the accounting data . . . ." The trustees also reserved the right to file a supplemental report with the bankruptcy court to "provide further detail as to the financial dealings between Namvar family members." Therefore, we do not find the Financial Report to be credible evidence that a bona fide debt existed.

Appellants also submitted a one-page document entitled "Schedule F—Creditor Holding Unsecured Nonpriority Claims" (Schedule F). Appellants argue that "Schedule F verifies that a Creditor's Claim had been filed by [appellant-husband] for $1,890,456.00." However, appellant-husband's submission of a creditor's claim in the Namco Bankruptcy Case does not substantiate any underlying debt or loans. Our understanding of Schedule F is that the debtor (here, Namco) completes it and lists certain unsecured creditors with claims that may or may not be certain and that may be contingent, unliquidated, or disputed. Accordingly, Schedule F appears to be just a list of all the unsecure, nonpriority creditor claims—with or without merit—that have been filed against Namco.

Finally, we note the record contains several court filings from adversary proceedings associated with the Namco Bankruptcy Case, which was one of dozens of cases—civil and criminal—relating to Namco's dissolution. As relevant here, on October 26, 2010, one of the trustees of the Namco Liquidating Trust sued appellant-husband and his brothers for, among other things, breach of fiduciary duty, breach of contract, and unjust enrichment. The trustee

essentially alleged that Namco's creditors entrusted hundreds of millions of dollars with Namco, expecting the funds would be invested prudently in real estate projects, but the Namvar brothers instead improperly used them for the personal benefit of the Namvar family. The Namvar brothers, including appellant-husband, countersued for, among other things, breach of contract. The parties ultimately entered into a settlement agreement that provided for appellant-husband and his brothers, jointly and severally, to pay the Namco Liquidating Trust $5,919,345, plus interest. It further provided for appellant-husband to withdraw his creditor claim in the Namco Bankruptcy Case, i.e., the $1,890,456.19 purported loans, which he did. The court also ordered appellant-husband to personally pay the Namco Liquidating Trust $971,684.12, plus interest.

These adversary proceedings support our conclusion that Namco did not owe the purported loans in question to appellant-husband. On the contrary, because appellant-husband withdrew his claim of $1,890,456.19, and agreed to pay Namco at least $6,891,029.12, plus interest, he actually owed Namco money, not the other way around. In addition, the trustee's lawsuit against the Namvar brothers casts serious doubt on appellants' assertion that the trustees' Financial Report, prepared less than a year before the filing of the lawsuit, shows that Namco owed money to appellant-husband.

$1 Million Home Equity Line of Credit

Appellants contend that a portion of the purported $1,890,456.19 loans to Namco is from a $1 million home equity line of credit against their personal residence. They assert that in May 2008, they obtained the $1 million from HSBC Mortgage Corporation (HSBC), Ezri executed a promissory note memorializing a $1 million loan agreement between Namco and appellants, and appellant-husband wired $1 million to Namco. They further assert that Namco remitted monthly interest payments to HSBC on the loan from June 2008 to December 2008, and argue these interest payments are evidence of the underlying loan agreement. Again, we are not convinced.

Appellants submitted a copy of a partially completed wire transfer request form printed on HSBC letterhead, dated May 1, 2008, and signed by appellant-husband. The request form lists a transfer amount of $1 million, with Namco as the beneficiary. However, the portion of the request form to be completed by bank representatives is blank, and there is no indication that the form was ever processed by, or even submitted to, HSBC. Appellants also did not provide any source documentation, such as personal bank statements or Namco bank statements, verifying

that the purported wire transfer occurred and the funds were actually sent to Namco.[12] Therefore, the wire transfer request form does not support any underlying loan to Namco.

Appellants also produced a copy of a HSBC document entitled "Home Equity Line of Choice Monthly Statement," dated May 23, 2008. It shows appellants had a loan balance with HSBC of $1,002,410.96. Although the statement may indicate appellants secured a $1 million line of credit, it in itself does not show they subsequently loaned the money to Namco.

Appellants next provided a promissory note purportedly executed by Ezri on May 2, 2008, which identifies appellants as the holders of the note. The promissory note bears an 8 percent interest rate per year. It requires repayment to appellants, and interest-only payments to begin on November 1, 2008, until the maturity date of the loan. However, the note lacks a maturity date, repayment schedule of regular interest and principal payments, and collateral to secure payment. The absence of these provisions strongly suggests it is not a bona fide debt.[13] (See *Sundby v. Commissioner*, T.C. Memo. 2003-204, 2003 WL 21638265 at *4.) Moreover, the execution of a note does not necessarily establish the existence of bona fide debt. (See *Albert v. Commissioner*, T.C. Memo. 2014-70, 2014 WL 1508708 at *8.)

Finally, appellants produced copies of the front side of six checks, dated between June 11, 2008, and December 10, 2008, totaling $18,079.79, that Namco made out to—and allegedly paid—HSBC. Appellants assert the checks were for interest payments on their HSBC home equity loan, and that the payments substantiate the existence of the promissory note between them and Namco.

From the outset, we note that five of the six Namco checks to HSBC appear to bear appellant-husband's signature. In his March 21, 2017 affidavit, appellant-husband stated that he was never a shareholder of Namco, and he "learned after the fact that I had been made Secretary of Namco. I do not know why I was made Secretary without my knowledge, and I do not remember undertaking any acts as Secretary." However, appellant-husband fails to explain in

[12] On August 31, 2016, FTB had previously requested documentation, other than the HSBC wire transfer request form, to substantiate an actual transfer of money from appellants to Namco. On October 7, 2016, appellants declined to provide such documentation: "Asking for HSBC's internal wire records is way more than a taxpayer should have to do in order to prove that he made the loan."

[13] In his March 21, 2017 affidavit, appellant-husband claims: "I had not kept a copy [of the promissory note], and only received a copy from Ezri within the past week after he located a copy in his files. I only got this note because of the amount involved. I had never asked for a note before." In our view, these statements call into question the authenticity of the note and whether a loan of $1 million was ever made by appellant-husband to Namco, because appellant-husband never knew such a note existed at the time the purported loan was created.

what capacity he signed the Namco checks, if not as corporate secretary. By signing them, it appears he exerted some decision-making authority and control over the financial affairs of Namco, a business wholly-owned by his brother, Ezri. Consequently, we must subject transactions between related taxpayers or a closely-held corporation to special scrutiny. (See *Tyson v. Commissioner*, T.C. Memo. 2009-176, 2009 WL 2253115 at *10.) Testimony concerning such transactions are viewed with diffidence, unless supported by other facts indicating they were at arm's-length. (See *Berthold v. Commissioner* (6th Cir. 1968) 404 F.2d 119, 122.)

Here, appellants have failed to establish the interest payments were made at arm's-length. The only interest payments in the record are the six checks, and they do not appear to be consistent with an 8 percent interest rate in the promissory note.[14] Further, Namco allegedly made the payments directly to HSBC, yet the promissory note required Namco to make them to appellants. Simply stated, these checks show, at most, that appellant-husband authorized Namco to make payments on a personal home equity line of credit. Accordingly, they do not show a bona fide debt was owed by Namco to appellants.

$717,000 Transfer from Trifish to Namco

Lastly, appellants contend that a portion of the purported $1,890,456.19 loans is attributable to a September 12, 2008 transfer of $717,000 from Trifish to Namco. In his March 21, 2017 affidavit, appellant-husband stated, "I arranged for another $717,000 loan to go to Namco. I borrowed this money from Trifish, LLC, an entity of which I was a Member. … I did not do a note for this $717,000 loan because Namco was to repay me within a short time."

To support this contention, appellants provided several documents. Appellants submitted a one-page document entitled "Authorization," dated September 11, 2008, and signed by appellant-husband. The authorization appears to have been prepared on appellant-husband's letterhead, and it gives instructions to an unnamed addressee to transfer $717,000 payable to

[14] For example, the first check, dated June 11, 2008, for $2,410.96 matches the first monthly interest payment that appellants owed to HSBC. As mentioned, appellants do not explain how this amount is consistent with an 8 percent interest rate on the promissory note with a principal of $1 million, which should mathematically be closer to $80,000.

Namco.[15] Appellants also submitted the front and back of a deposited Trifish check signed by appellant-husband for $717,000 to Namco. They further produced a Trifish bank statement from Security Pacific Bank showing payment of the $717,000 check. Finally, appellants provided two Trifish operating agreements: (1) one made as of February 15, 1999, indicating one-third equal ownership interests among appellant-husband and two brothers; and (2) the other, an amended agreement, effective as of June 7, 2005, also indicating one-third equal ownership interests, this time between T.N. Management, Inc., Net, LLC, and Believers, LLC. Appellant-husband signed the amended agreement for T.N. Management, Inc. as "president"[16] and the other two LLCs were signed by his two brothers. Appellants contend that appellant-husband transferred his one-third personal ownership interest in Trifish to T.N. Management, Inc., which they call "his corporation." They did not provide any other information regarding T.N. Management, Inc.

However, this evidence does not support that appellant-husband loaned $717,000 to Namco. Appellants have not provided any evidence showing the $717,000 belonged to appellants, rather than Trifish's three LLC members. Rather, at best, the evidence only supports that on September 11, 2008, Trifish paid Namco $717,000 by a check signed by appellant-husband. Accordingly, appellants have failed to substantiate they ever transferred $717,000 to Namco to support underlying loans.

Bona Fide Debt Factors

To bolster our conclusion, we next consider bona fide debt factors and analyze each in turn. Courts "have defined a loan as an agreement, either express or implied, whereby one person advances money to the other and the other agrees to repay it upon such terms as to time and rate of interest, or without interest, as the parties may agree." (*Welch v. Commissioner* (9th Cir. 2000) 204 F.3d 1228, 1230, internal quotation omitted.) In making this determination, courts consider non-exclusive factors as indicia of a bona fide loan, such as: "(1) whether the promise to repay is evidenced by a note or other instrument; (2) whether interest was charged; (3) whether a fixed schedule for repayments was established; (4) whether collateral was given to

[15] The authorization also gives instructions regarding a separate amount of $233,000 to be kept in Trifish and transferred for the benefit of an individual, and for a promissory note to be prepared to effect the transfer. No such instruction to prepare a promissory note was given for the $717,000 transfer.

[16] Appellant-husband's two brothers, the original one-third co-owners of Trifish, signed on behalf of the other two LLC members.

secure payment; (5) whether repayments were made; (6) whether the borrower had a reasonable prospect of repaying the loan and whether the lender had sufficient funds to advance the loan; and (7) whether the parties conducted themselves as if the transaction were a loan." (*Ibid.*)

First, appellants only present evidence of a promissory note for $1 million of the $1,890,456.19 in total alleged bad debt. The note is unreliable, it is for an indeterminate amount, and, most importantly, it does not show that any funds were transferred by appellants to Namco.

Second, appellants provide no evidence that interest was charged on any portion of the purported $1,890,456.19 in loans. Although the promissory note for $1 million purports to bear an interest rate of 8 percent per year, appellants do not provide any personal financial records or third-party source records to verify that interest was actually charged by appellants or paid by Namco to appellants.

Third, appellants provide no evidence of a fixed schedule for repayments for any portion of the purported loans. The promissory note contains no repayment schedule of regular interest and principal payments. Rather, it states that "from time to time" interest shall be payable until the maturity date, which is not specified.

Fourth, appellants provide no evidence that Namco gave appellants collateral to secure repayment of the purported loans.

Fifth, appellants provide no credible evidence to verify that Namco made payments on the purported loans. The QuickReport lists debits and credits, but it is not supported by any source documents from third-parties or appellants. In addition, the purported interest payments by Namco to HSBC only show that appellant-husband authorized Namco to make payments on a personal home equity line of credit, without evidencing a bona fide debt owed by Namco to appellants. The six interest payments to HSBC also do not appear to be consistent with an 8 percent interest rate in the promissory note.

Sixth, appellants provide no evidence establishing that Namco had a reasonable prospect of repaying the loans. While Namco's involuntary Chapter 11 bankruptcy was filed after the purported loans were made by appellant-husband, we find it unlikely he lacked prior knowledge of Namco's poor financial condition. He was the corporate secretary of Namco and had check-signing authority and access to financial records, such as the QuickReport.

Finally, appellants offer little evidence the parties conducted themselves as if the purported transactions were loans. Namco did not appear to maintain corporate formalities with

respect to the purported loans, the alleged arrangement was largely undocumented, and the $1 million that was claimed to be documented did not contain certain provisions one would normally find in a valid loan agreement. Indeed, the only Namco accounting record is a spreadsheet consisting of a series of debits and credits, which is unsubstantiated by any source documents, such as bank statements, wire transfer receipts, or copies of canceled checks.[17]

## HOLDING

Appellants are not entitled to a nonbusiness bad debt deduction. Therefore, we do not need to address the subsidiary issue of which year the purported debt became worthless.

## DISPOSITION

FTB's action in denying appellants' refund claim is sustained.

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Kenneth Gast
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Kenneth Gast
Administrative Law Judge

We concur:

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Linda C. Cheng
Administrative Law Judge

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Amanda Vassigh
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Amanda Vassigh
Administrative Law Judge

[17] The record also does not indicate if, for income tax purposes, Namco reported the transactions consistent with a loan arrangement (e.g., such as how it treated the cancelled debt), or whether appellants reported any of the alleged interest payments by Namco to HSBC as income on their return.