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APPEARANCES:

Panel Lead: ALJ SARA A. HOSEY

Panel Members: ALJ JOSH LAMBERT
ALJ TERESA STANLEY

For the Appellant: J. YOUNG

For the Respondent: STATE OF CALIFORNIA
FRANCHISE TAX BOARD
SOPHIE KUEHL
NATHAN HALL

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I N D E X

E X H I B I T S

(Appellant's Exhibits 1-9 were received into evidence at page 6.)

(Department's Exhibits A-N were received into evidence at page 6.)

O P E N I N G S T A T E M E N T

	<u>P A G E</u>
By Mr. Young	6
By Ms. Kuehl	14

C L O S I N G S T A T E M E N T

	<u>P A G E</u>
By Mr. Young	24

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Cerritos, California; Wednesday, March 11, 2026

10:36 a.m.

JUGE HOSEY: So we are now on the record.

This is the Appeal of Young, Case No. 240616425. Today is March 11th, 2026, and it is 10:36 a.m. This hearing is being held virtually via Zoom.

I am lead Administrative Law Judge Sara Hosey, and with me today are my panel members Teresa Stanley and Joshua Lambert.

Can I have the parties identify themselves for the record, starting with the Appellant.

MR. YOUNG: Hi. James Young.

JUGE HOSEY: Thank you, Mr. Young.

And Franchise Tax Board.

MS. KUEHL: Sophie Kuehl.

MR. HALL: And Nathan Hall.

JUGE HOSEY: Thank you.

The issue to be decided in this appeal is whether Appellant has satisfied his burden of proof to establish entitlement to deduct alimony as claimed on his 2018 tax return.

We have Exhibits 1 through 9 from Appellant and A through N from Respondents. No new submissions since the prehearing conference was held. So Exhibits 1 through 9

1 and A through N are now admitted as evidence into the
2 record.

3 (Appellant's Exhibits 1-9 were received into
4 evidence by the Administrative Law Judge.)

5 (Department's Exhibits A-N were received into
6 evidence by the Administrative Law Judge.)

7 JUDGE HOSEY: All right. Mr. Young, we are going
8 to swear you in for your testimony. Can you please raise
9 your right hand.

10

11

J. YOUNG,

12

produced as a witness, and having been first duly sworn by
13 the Administrative Law Judge, was examined, and testified
14 as follows:

15

16

JUGE HOSEY: Okay. Please begin.

17

18

PRESENTATION

19

MR. YOUNG: Okay. So I just want to make sure
20 that my response -- my opening to Appellant's -- or
21 Respondent's opening brief is entered into the record, the
22 response itself. And then I have a statement here as an
23 opening statement, which I will go ahead with.

24

First of all, good morning. Thank you all for
25 your time. I appreciate the process and the ability to be

1 heard.

2 This case centers around evidence of my deduction
3 for spousal support in 2018. The amount of spousal
4 support paid to my ex is clearly indicated on a marital
5 balance sheet, which was the written basis for the
6 settlement of all outstanding issues at the time of our
7 final divorce decree. The terms of the settlement were
8 summarized on the marital -- on the marital balance sheet,
9 memorialized in a stipulation, and filed with the court as
10 an attachment to Form Family Law or FL180, which is the
11 final judgment for dissolution. You're going to hear us
12 refer to that as an FJD, final judgment for dissolution.
13 Although the marital balance sheet was in writing and
14 agreed to by both parties, it was not physically attached to
15 the FJD.

16 The Franchise Tax Board argues that the marital
17 balance -- balance sheet, because it was not attached,
18 does not constitute adequate evidence supporting the
19 deduction, and that no deduction for spousal support
20 should be allowed. Zero. The Franchise Tax Board claims
21 that the marital balance sheet is not a, quote, "Written
22 document incident to our divorce." They simply want to
23 dismiss this document as non-evidentiary to our final
24 divorce settlement. This couldn't be further from the
25 facts of this case.

1 This document is the source document which
2 governs the preparation of the final judgment or decree,
3 FJD. It was referenced in stipulations that it would be
4 such by parties early in the process. The FJD ties out to
5 the marital balance sheet with very specific amounts on
6 unresolved issues no less than 14 times. Fourteen times.
7 The -- every number in the FJD ties out to the marital
8 balance sheet.

9 The product of the marital balance sheet, this
10 document, which includes payment of \$288,700 of spousal
11 support. That's for 10 years. It was 3 years back, and 7
12 years forward, I believe. The product of that document,
13 in other words, the amount needed to balance the entire
14 settlement was \$7,322 was ordered for me to pay by the
15 court, and I paid it as was ordered.

16 The FTB has taken the position that property
17 settlements may not be offset to affect payment of spousal
18 support and that only cash payments directly from one
19 spouse to the other account. This is not consistent with
20 California law. California Family Code -- and the
21 reference is Division 9 Part 3 Chapter 1 section 4338,
22 specifically, contradicts FTB's position as follows.
23 Section 4338 specifically says, quote, "In the enforcement
24 of an order for spousal support, the court may resort to
25 the property described below in order indicating."

1 It gives an order of -- of application. A is
2 earnings and income, of course. B is community property.
3 This is in direct contravention of what the FTB is
4 contain -- is saying. C is quasi community property, and
5 D is separate property above other parties. I don't think
6 those are really pertinent at this time. This is both
7 logical and common practice when a buyout is done because
8 the total spousal support often award -- the total spousal
9 support awarded often exceeds actual cash available to pay
10 for it. If you're going to pay spousal support for 10
11 years and 1 day, it's -- it's not normal to have that kind
12 of cash sitting around. So the courts recognize this, and
13 say, sure, you can offset property to -- to make the
14 effect of that payment.

15 California law also requires that now so -- okay.
16 So the first part is that property may be used to offset
17 the cost of spousal support. The second thing is, the
18 California law requires spousal support. It's not
19 optional. It's required. My marriage was for over
20 24 years, which by law that is a long-term marriage, and
21 it starts spousal support. It starts at 10 years. And
22 I'm going to also quote California family Code Division 9,
23 again, Part 3 Chapter 1 Section 4300 require -- and I'm
24 going to quote, "A person shall support the person's
25 spouse." Not may. Shall. It's a requirement.

1 Section 4320 requires that a court shall -- shall
2 consider all the following circumstances required, taking
3 into account the supporting party's earning capacity,
4 earned and unearned income, assets, and standard of
5 living. I was a CEO of a hospital company during the vast
6 majority of my marriage. I earned 90 percent of the
7 income of the household, and we lived in 4,300 square-foot
8 home in Yorba Linda.

9 These are not facts to brag. These are merely
10 facts to demonstrate that the position of the FTB, that
11 this marriage of over 24 years at this standard of living
12 be void of any spousal support at -- on divorce is -- it's
13 ludicrous. 4320 goes on -- besides standard of living, it
14 says the duration of the marriage. The goal, that the
15 supported party shall be self-supporting within a
16 reasonable period of time. That's further defined as
17 10 years for a long-term marriage. I don't want to get
18 too detailed.

19 I just want to say -- oh, Section 4333, same spot
20 reads, "In order for spousal support in a proceeding for
21 dissolution of marriage or legal separation may be made
22 retroactive to the date of filing of the Notice of Motion
23 or order to show cause or to any subsequent date." So
24 what that says is that at the time that you settle your
25 divorce, you can certainly pay spousal support from the

1 time you filed -- which, by the, way this was filed in
2 2010, and didn't settle until 2018 -- and forward.

3 So -- and then there's another part. The court
4 retains in California law jurisdiction over spousal
5 support indefinitely, unless you specifically put in
6 writing that the court's jurisdiction over spousal support
7 is terminated. So, in our FJD -- in our final judgment,
8 we, of course, put that language in there. The FTB has
9 used that language to somehow demonstrate that -- that
10 spousal support was not awarded, and that I did not
11 provide evidence. The evidence is clear.

12 So, my questions, really, and I'm looking forward
13 to hear, how does the FTB reconcile their position of
14 allowing zero spousal support in spite of this written
15 document with the set of laws which requires spousal
16 support to be made reasonably? And all 14 of these
17 references in our final judgment tied directly to the
18 marital balance sheet, including the equalizing payment.
19 And so, if there was no NBS, no marital balance sheet,
20 where did these numbers come from? Did they just come
21 from air? No. They came from a written document. And
22 the marital balance sheet is the written document.

23 So that really concludes my opening remarks.
24 Thank you for hearing me out. And if you have any
25 questions, I'm happy to reply.

1 JUDGE HOSEY: Thank you, Mr. Young, for your
2 testimony and your arguments. I'm going to see if the
3 Franchise Tax Board has any questions regarding your
4 testimony.

5 MS. KUEHL: No question.

6 JUDGE HOSEY: Okay. Thank you, Ms. Kuehl.

7 I'll move to my panel now to see if there are any
8 questions.

9 Judge Stanley, any questions for Appellant?

10 JUDGE STANLEY: This is Judge Stanley speaking.
11 Good morning, everyone. I do have a question for -- for
12 Mr. Young.

13 I see in your paperwork that your wife filed a
14 motion many years ago for the amount of \$4,000 a month in
15 what back then would have been temporary spousal support.
16 I didn't see that it was ever ordered. Was that --

17 MR. YOUNG: No. We -- the stipulation on that
18 said that that spousal support would be reserved for the
19 time of trial, as did other stipulations during our time.
20 And so, the attorneys kept punting the spousal support
21 issue till time of trial. And one of the stipulations --
22 I'm not sure if it's actually the one you're looking at --
23 specifically refers to the marital balance sheet, that it
24 will be included at time of trial.

25 JUDGE STANLEY: Okay. This is Judge Stanley

1 speaking again. Yeah. I do understand what you're saying
2 about the marital balance sheet and how there was a
3 component that was for spousal support arrears. It was at
4 the same rate, \$4,000 per month, that your wife had
5 requested years before. So that's why I was wondering if
6 there was an interim order that we were missing in our
7 file. But it sounds like it was just pushed forward and
8 forward and forward. And then you agreed in the end to
9 accept or request her for \$4,000 a month retroactive?

10 MR. YOUNG: Yes, that's correct. I was just
11 looking at the number here. It was \$4,000 a month
12 retroactive, and then \$3,000 a month on a go forward.
13 Just to make perfectly clear, my ex was also a CPA as I
14 am, inactive. So, she did have the capacity to earn. She
15 had also retained a number of payments and other things
16 which gave her resources to live on. So, it's not like I
17 was leaving her penniless while we pushed out the
18 litigation. So, I just want to make that clear because
19 that's not my style. It's not who I am.

20 JUDGE STANLEY: I'm not suggesting that,
21 Mr. Young.

22 MR. YOUNG: I just --

23 JUDGE STANLEY: I just wanted to see because I
24 saw that the numbers matched between what she asked for
25 and what she was eventually given via stipulation. So, I

1 just wanted to clarify that. Thank you very much.

2 MR. YOUNG: You're welcome.

3 JUDGE HOSEY: Thank you.

4 This is Judge Hosey, again. Let me ask my other
5 co-panelists.

6 Judge Lambert, any questions for Appellant?

7 JUDGE LAMBERT: This is Judge Lambert. I don't
8 have any questions at this time. Thank you.

9 JUDGE HOSEY: Thank you.

10 All right. Thank you, Mr. Young.

11 We're going to move to the Franchise Tax Board
12 now for their presentation.

13 Ms. Kuehl, are you ready to begin?

14 MS. KUEHL: Yes.

15 JUDGE HOSEY: Go ahead. Thank you.

16

17 PRESENTATION

18 MS. KUEHL: Good morning.

19 This appeal involves the deduction of alimony
20 under Internal Revenue Code section 215. A taxpayer who
21 claims the deduction has the burden to prove through
22 sufficient evidence that he is entitled to that deduction.
23 Appellant reported \$288,700 in deductible alimony in the
24 2018 taxable year. However, the divorce filings executed
25 by Appellant do not support entitlement to that deduction.

1 After separating in 2011, Appellant and his
2 former spouse executed a series of divorce filings between
3 2016 and 2018. Among them was a final judgment decree
4 which finalized the orders of the divorce. The final
5 judgement decree is comprised of a standard form and a
6 written attachment stipulating judgement on the issues,
7 including the issues of community property and spousal
8 support. Appellant also provided a marital balance sheet
9 which appears to outline the division of property between
10 Appellant and his former spouse.

11 As an initial matter, Appellant has failed to
12 substantiate the spousal support payments claimed on his
13 2018 tax return, as well as the payment schedule. The
14 schedule of payments provided by Appellant, Exhibit L,
15 only reference a little over \$186,000. Thus, even if
16 Respondent accepted Appellant's payment schedule without
17 question, the alimony deduction would be over \$100,000
18 less than what was claimed on his tax return.
19 Notwithstanding that reduction, Appellant has also failed
20 to provide documentation substantiating any of the claimed
21 payment.

22 None of the payments listed on Appellant's
23 payment schedule have been substantiated by supporting
24 evidence, such as copies of credit cards or bank
25 statements, canceled checks, receipts, or other supporting

1 documents. Appellant claims that documents pertaining to
2 his divorce were stored in a hanger that burned down in
3 August of 2022. However, the loss of supporting records
4 needed to substantiate a deduction generally does not
5 relieve the taxpayer of his burden.

6 Even assuming Appellant could substantiate any of
7 the payments, Appellant has failed to satisfy his burden
8 to show that such payments constitute deductible alimony.
9 Under Internal Revenue Code section 215, an individual may
10 deduct alimony payments if they are taxable to the
11 recipient spouse under Internal Revenue Code section 71.
12 Under section 71(b)(1)(A), alimony or separate maintenance
13 payments or any payment in cash, if such payment is
14 received by or on behalf of the spouse under a divorce or
15 separation agreement. A divorce or separation agreement
16 is defined under 71(b)(2) as either A, a decree of divorce
17 or a written instrument incident to such a decree; B, a
18 written separation agreement; or C, a decree requiring a
19 spouse to make support payment.

20 Appellant has not met his burden to show that the
21 marital balance sheet constitutes a divorce or a
22 separation instrument. The nature of the marital balance
23 sheet and its relation to the other divorce filings is
24 unclear. The declaration for default or uncontested
25 dissolution, Exhibit A at page 18, along with the final

1 judgment decree, Exhibit A at page 1, and the attachment
2 to stipulated judgment, Exhibit A at page 3 through 26,
3 appear to be a closed set of documents, which do not
4 conclude the marital balance sheet.

5 For example, the declaration for default or
6 uncontested dissolution provides in paragraph 8D that
7 spousal support is as set forth in the final judgement
8 decree. Paragraph 4L of the final judgment decree
9 provides that spousal support is ordered as per the
10 attached stipulation. In turn, the 14-page attachment to
11 the stipulated judgment provides in paragraph 3 that the
12 parties waive spousal support, quote, "Now and forever,
13 and parties agree that neither party can hereafter ever
14 petition the court for spousal support," unquote.

15 The final judgement decree references only 14
16 pages, the same number of pages as attached in the
17 stipulation; which does not appear to include the marital
18 balance sheet. There's no evidence that the marital
19 balance sheet was attached to the final judgement decree
20 in the official divorce proceeding. Thus, it does not
21 appear that the marital balance sheet is an official order
22 in the divorce proceeding. And moreover, the attached
23 stipulation expressly states that both parties waive
24 spousal support in perpetuity.

25 In Mudrich versus Commissioner, the Internal

1 Revenue Service disallowed a taxpayer's deduction for
2 alimony because it was not made under a written separation
3 agreement pursuant to section 71(b)(1)(A). There, the
4 taxpayer and his the former spouse agreed in writing that
5 one-half of the taxpayer's bonus net of taxes would
6 transfer to his former spouse. The taxpayer argued that
7 the agreement constituted a written separation agreement
8 incident to their divorce. The Tax Court disagreed,
9 reasoning that the agreement did not become an order in
10 the divorce proceedings, and the payment predated the
11 support order.

12 Here, the marital balance sheet does not appear
13 to have been filed by a court, signed by a judge, or
14 signed by either party. Appellant argues that his former
15 spouse signed off on the marital balance sheet by signing
16 the declaration for default or uncontested dissolution FL
17 Form -- or Form FL170. While the declaration indicates
18 that spousal support is set forth in a written agreement,
19 the declaration only references the Form FL180, also known
20 as the final judgment decree, which in turn references the
21 attached stipulation. Respondents also notes that the
22 attached stipulation in Exhibit A, which expressly
23 provides for no spousal support, is signed by Appellant,
24 his wife, and the judge. Whereas the marital balance
25 sheet contains no signatures, dates, or any other

1 indication that it is intended to be a part of the divorce
2 decree. On this basis alone, Respondent's determination
3 should be upheld.

4 Moreover, even if the marital balance sheet could
5 be considered incident to their divorce decree, it is
6 unclear whether Appellant's payments to his former spouse
7 predated the marital balance sheet. Payments made prior
8 to a written support agreement are not deductible.
9 Retroactive payments made without a written support decree
10 are also not considered alimony. The marital balance
11 sheet states that a future spousal support buyout was paid
12 to Appellant's former spouse. However, no date of payment
13 is provided, and it is not evident that the marital
14 balance sheet existed at the time the claimed payments
15 were made.

16 Further, the payment schedule provided by
17 Appellant suggest that seven of the claimed of the spousal
18 support payments were made between 2011 and 2016. Even if
19 the marital balance sheet could be considered part of the
20 divorce or separation agreement, Appellant has nonetheless
21 failed to establish that any of the payments were made
22 pursuant to a written support decree at the time of
23 payment.

24 Finally, Appellant has not met his burden to
25 prove that the claimed payments to his former spouse are

1 support payments rather than property settlement. Where a
2 payor makes payments in satisfaction of the other spouse's
3 property right, the amounts received are not includable in
4 the income of the recipient under section 71 and not
5 deductible by the payor under section 215. A taxpayer has
6 the burden to show that the payments are not property
7 settlement. Whether a payment is considered alimony
8 depends upon all of the surrounding facts and
9 circumstances.

10 Looking to the divorce filings as a whole, they
11 tend to show that the claimed payments are property
12 settlements. For example, Appellant's payment schedule
13 states that his former spouse retained his 2010 and 2011
14 federal and state tax refund. One of the official divorce
15 proceedings, the stipulation for partial property
16 characterization and evaluation for judgment, Exhibit B,
17 provides that the 2010 and 2011 federal and state refunds
18 were paid, quote, "On the community's behalf," unquote.
19 Appellant has not met his burden to show that the tax
20 refunds are in the nature of support and not property
21 settlement.

22 In closing, Appellant has not met his burden of
23 proof to establish entitlement to deduct \$288,700 in
24 alimony as claimed on his 2018 tax return for the
25 following reasons: One, Appellant has not substantiated

1 any of the claimed payment; two, the documents provided
2 appear to specifically disallow spousal support; three,
3 Appellant has not shown that the marital balance sheet is
4 a written support instrument under section 71(b)(1)(a);
5 four, it is not clear that any of the claimed payments
6 were made pursuant to a support agreement at the time of
7 payment; and finally, it is clear that the claimed
8 payments are support payments, rather than property
9 settlement. As such, Respondent's determination should
10 stand.

11 And I'm happen to take any questions at this
12 time.

13 JUDGE HOSEY: Thank you, Ms. Kuehl, for your
14 arguments today. Let me check with my panel to see if
15 there are any questions.

16 Judge Stanley, any questions for Franchise Tax
17 Board?

18 JUDGE STANLEY: I do have a couple. This is
19 Judge Stanley speaking.

20 Ms. Kuehl, the first question that I have is
21 whether the Franchise Tax Board disputes that the ultimate
22 property judgment seems to exactly match the marital
23 balance sheet? Is that -- would the Franchise Tax Board
24 agree with that?

25 MS. KUEHL: Yes. However, the equalization

1 payment you are referring to, that payment is also
2 reflected on page 6 of the final judgment decree,
3 Exhibit A, which is the same document that specifically
4 disallows spousal support. So, there are two documents
5 which reflect the equalization payment: One, an unsigned
6 and undated community balance sheet that claims spousal
7 support; and one that is an official order signed by both
8 parties and a judge that disallows spousal support.

9 JUDGE STANLEY: Okay. And would the Franchise
10 Tax Board, though, also decree that in the judgment the
11 property division between the parties, not just the he
12 equalization payment but the property division, saying
13 which parts of which counts were confirmed to each party,
14 do you agree that that also matches what was in the
15 marital balance sheet?

16 MS. KUEHL: Franchise Tax Board only disputes
17 that the spousal support in the marital balance sheet does
18 not match the final judgment decree.

19 JUDGE STANLEY: Okay. And if -- I'm just going
20 to give you a hypothetical, and it goes against more than
21 one of the points that you're trying to make here, so if
22 you'll bear with me. If in the settlement they had split
23 their property -- their community property 50-50, and then
24 Mr. Young had taken one of the accounts that he received
25 and written a check to his ex-wife, would that have

1 constituted a payment?

2 MS. KUEHL: The applicable authority for
3 establishing deductible alimony resides in Internal
4 Revenue Code sections 215 and 71. So under those
5 sections, Appellant would need to establish that they
6 could deduct alimony only if that alimony or claimed
7 payments are taxable to the recipient's spouse. So in
8 that hypothetical, if the payments were established that
9 they were taxable to the recipient's spouse under
10 Section 71 and substantiated, and that would mean that
11 they are made pursuant at the time of payment to a written
12 support decree, then they could be considered alimony.

13 JUDGE STANLEY: Okay. Thank you.

14 JUDGE HOSEY: Okay. Judge Lambert, any questions
15 for the Franchise Tax Board?

16 MS. KUEHL: This is Judge Lambert. I have no
17 questions. Thanks.

18 JUDGE HOSEY: Thank you.

19 This is Judge Hosey again. All right. We're
20 going to move back to Appellant.

21 Mr. Young, you have time for a final statement
22 and to address anything that the Franchise Tax Board
23 brought up or that the panel members brought up. Would
24 you like some time now to speak?

25 MR. YOUNG: Just a couple of quick questions, if

1 it doesn't require or mandate that it be filed with the
2 court or signed by a judge as has been represented here.
3 It just has to be where other written document incident to
4 such. The marital balance sheet clearly is a written
5 document, and it clearly is the support for the final
6 judgment.

7 The other thing that I think that's already been
8 addressed by the panel, which is the contention that
9 property is property and spousal support is spousal
10 support. The two cannot be combined or offset to achieve
11 the desired result is not -- is not correct. And then
12 lastly, the FTB still has not suggested that -- their
13 contention is spousal support should be zero, which, of
14 course, would be -- and not only impossible but, like, a
15 violation of California law.

16 So thank you very much. I think that concludes
17 my comments. And, again, I appreciate your time and your
18 consideration.

19 JUDGE HOSEY: Thank you, Mr. Young. We appreciate
20 your time as well today.

21 All right. I think we are ready to conclude the
22 hearing today and submit the case. The evidence has been
23 admitted into the record, and we have the arguments and
24 your briefs, as well as the oral arguments and testimony
25 today, Mr. Young, provided by you. We now have a complete

1 record from which to base our decision, and we're ready to
2 submit the case. The parties should expect our written
3 opinion no later than 100 days from today.

4 With that, we are off the record, and the hearing
5 is adjourned.

6 Thank you, everyone, for your participation
7 today.

8 (Proceedings concluded at 11:08 a.m.)

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HEARING REPORTER'S CERTIFICATE

I, Ernalyne M. Alonzo, Hearing Reporter in and for the State of California, do hereby certify:

That the foregoing transcript of proceedings was taken before me at the time and place set forth, that the testimony and proceedings were reported stenographically by me and later transcribed by computer-aided transcription under my direction and supervision, that the foregoing is a true record of the testimony and proceedings taken at that time.

I further certify that I am in no way interested in the outcome of said action.

I have hereunto subscribed my name this 25th day of March, 2026.

ERNALYN M. ALONZO
HEARING REPORTER