

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 16160
[Redacted])	DECISION
)	
Petitioners.)	
_____)	

[Redacted] (petitioners) protest the Notice of Deficiency Determination issued by the auditor for the Idaho State Tax Commission (Commission) dated October 5, 2001, asserting additional liabilities for Idaho income tax and interest in the total amounts of \$1,871, \$4,567 and \$62,366 for 1995, 1996, and 1997, respectively.

The auditor disallowed the itemized deductions claimed by the petitioners for each of the years here at issue, allowing instead the standard deductions. The auditor also adjusted the amounts reportable by the petitioners on Schedule E of the federal income tax returns. The adjustments to Schedule E included adjustments made with regard to their rental property, income from a partnership in which the petitioners held an interest, and the income from [Redacted].

The itemized deductions were disallowed due to the lack of proof from the petitioners that they were entitled to the deductions sought. Taxpayers bear the burden of proof with regard to deductions. The Commission finds that the petitioners have failed to carry this burden. Therefore, they are not entitled to the itemized deductions.

Adjustments were made to the income reported with regard to rental property owned by the petitioners for each of the years here in question. After reflecting additional information submitted by the petitioners, the adjustment with regard to the rental property was eliminated for 1995. For 1996, the only remaining adjustment with regard to the rental property was a \$600.00 adjustment to the amount claimed for legal and professional fees. For 1997, adjustments remain for a claimed

management fee (\$600), interest expense (\$73), and taxes (\$1,168). The petitioners have failed to show any error in these adjustments.

The only adjustment with regard to the partnership interest owned by the petitioners was for 1996. The workpapers indicate that the petitioners claimed a loss in the amount of \$1,592, none of which was allowed by the auditor. The petitioners have not indicated any error in this portion of the auditor's computations. Therefore, the Commission finds that this adjustment should be affirmed.

[Redacted] was an S corporation wholly owned by the petitioners. The auditor made numerous adjustments to the Idaho income tax returns of [Redacted] for 1996 and 1997. Since [Redacted] was an S corporation, the additional income was reflected on the petitioners' Idaho income tax returns. Therefore, the Commission finds that the increase in income of the S corporation must be included in the petitioners' income for both 1996 and 1997.

WHEREFORE, the Notice of Deficiency Determination dated October 5, 2001, is hereby MODIFIED, and as so modified is APPROVED, AFFIRMED, and MADE FINAL.

IT IS ORDERED and THIS DOES ORDER the petitioners to pay the following tax and interest (calculated to January 15, 2003):

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
1995	\$ 551	\$ 292	\$ 843
1996	2,567	1,146	3,713
1997	46,834	16,824	<u>63,658</u>
		TOTAL	<u>\$68,214</u>

DEMAND for immediate payment of the foregoing amount is hereby made and given.

An explanation of the petitioners' right to appeal this decision is enclosed with this decision.

DATED this _____ day of _____, 2002.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this ____ day of _____, 2002, a copy of the within and foregoing DECISION was served by sending the same by United States mail, postage prepaid, in envelopes addressed to:

[Redacted]
[Redacted]

Receipt No. [Redacted]
