

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
[Redacted],) DOCKET NO. 24634
)
)
Petitioner.) DECISION
)
_____)

[Redacted] (Petitioners) protested the Notice of Deficiency Determination dated October 7, 2011, asserting additional income tax and interest for taxable years 2008, 2009, and 2010 in the total amount of \$4,398. Petitioners disagreed with the disallowance of schedule E interest deductions and the unreimbursed mileage claimed. The Tax Commission, having reviewed the file, hereby issues its decision.

BACKGROUND

[Redacted] is the [Redacted]) for Idaho, and is the sole shareholder of [Redacted] an Idaho S-Corp. On Petitioners' 2008, 2009, and 2010 Idaho income tax returns, Petitioners claimed unreimbursed expenses related to [Redacted] in the amounts of \$31,144, \$30,136, and \$32,377 respectively. The Income Tax Audit Bureau (Bureau) reviewed Petitioners' returns and determined the unreimbursed expenses needed to be examined for accuracy and deductibility. Petitioners provided information to the Bureau for the expenses claimed. The Bureau reviewed the information and found the unreimbursed expenses were made up of three items; two deductions for interest and a deduction for unreimbursed mileage.

The Bureau determined the unreimbursed mileage was not an allowable deduction because [Redacted] was an employee of the [Redacted] and mileage was reimbursable by the state. The fact that [Redacted] could have been reimbursed for his mileage precludes Petitioners from claiming unreimbursed employee business expenses on their personal income tax return.

The Bureau also disallowed the interest claimed on a loan from [Redacted] as not pertaining to debt acquired by Petitioners. The Bureau adjusted Petitioners' income tax returns and sent them a Notice of Deficiency Determination.

Petitioners protested the Notice of Deficiency Determination stating the debt was debt acquired to finance the acquisition of [Redacted], and therefore, qualifies as a loss reportable on schedule E. Petitioners also stated that by choosing not to be reimbursed for mileage, [Redacted] was saving the state, and therefore the taxpayers money. The Bureau acknowledged Petitioners' protest and referred the matter for administrative review.

The Tax Commission reviewed the matter and sent Petitioners a letter that discussed their options for redetermining a protested Notice of Deficiency Determination. Petitioners requested a hearing, which was held on September 5, 2012.

During the hearing, Petitioners provided an explanation for the unreimbursed mileage, but after the law was explained, Petitioners conceded that issue. The interest expense issue was also discussed at length, and Petitioners explained that both the notes and the bank loan were for the acquisition of other shareholders' interests in [Redacted]. Petitioners provided copies of two notes, which clearly identified the indebtedness as indebtedness for the acquisition of the stock interests held by [Redacted]. Petitioners also stated the bank loan was to buy the interests of two individuals [Redacted] brought into [Redacted] in 1985.

After researching the issue, the Tax Commission determined all the interest expense was acquisition indebtedness and an allowable deduction for Petitioners. However, Petitioners had only documented the two [Redacted]notes and one year of interest paid on the bank loan. The Tax Commission asked Petitioners to document the bank loan interest for taxable years 2009 and

2010. Petitioners provided that documentation which settled the matter on the deductible interest.

CONCLUSION

Petitioners provided the necessary documentation for the interest deducted and conceded the unreimbursed employee business mileage. Therefore, since there are no other contested issues, the Tax Commission modifies the Bureau's determination to allow the documented interest claimed as a deduction on Petitioners' 2008, 2009, and 2010 Idaho individual income tax returns.

THEREFORE, the Notice of Deficiency Determination dated October 7, 2011, and directed to [Redacted] is AFFIRMED as MODIFIED by this decision.

IT IS ORDERED that Petitioners pay the following tax and interest:

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$966	\$175	\$1,141
2009	89	12	101
2010	1,051	88	<u>1,139</u>
		TOTAL DUE	<u>\$2,381</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.

DATED this _____ day of _____ 2013.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2013, a copy of the within and foregoing DECISION was served by sending the same by United States mail, postage prepaid, in an envelope addressed to:

[Redacted]

Receipt No.
