

**BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of	)	
	)	DOCKET NO. 39263
[Redacted],	)	
	)	
Petitioners.	)	DECISION
_____	)	

On August 20, 2014, the staff of the Income Tax Audit Bureau (Bureau) of the Idaho State Tax Commission issued a Notice of Deficiency Determination (NODD) to [Redacted] and [Redacted] (petitioners), proposing additional income tax, penalty, and interest for taxable years 2009 through 2012, in the total amount of \$6,398. Petitioners subsequently submitted additional information to the Bureau and a modified NODD was issued on September 18, 2014, reducing the amount of proposed income tax, penalty, and interest for the aforementioned taxable years to the amount of \$5,249.

The petitioners, through their appointed representative, filed a timely appeal and petition for redetermination of the modified NODD. The petitioners did not request an informal conference. No further correspondence or additional documentation has been received. Therefore, the Commission now renders its determination.

The petitioners' 2009 through 2012 Idaho individual income tax returns were selected for review by the Bureau. The Bureau conducted a comprehensive review of income, credits, and deductions, with adjustments limited to Schedule A and Schedule C.

The petitioners were notified their income tax returns for taxable years 2009 through 2012 were being reviewed and they were asked to assist in the matter by providing specific documentation to substantiate the deductions and credits claimed. The petitioners were able to provide adequate documentation for some of the expenses and deductions, but a large percentage

remained unsubstantiated. Therefore, an NODD was issued by the Bureau to deny those expenditures that did not come within the terms of the applicable code sections and those that were unsubstantiated.

It is well established in Idaho law, as well as [Redacted] income tax law, that a taxpayer claiming a deduction, exemption, or credit bears the burden of establishing his entitlement to the same, both as to fact and law. Substantiation requirements begin with Internal Revenue Code Section 6001 which states: “Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records and comply with such rules and regulations as the Secretary may from time to time prescribe.” What this means is that taxpayers are required by law to maintain proper records to prove deductions by credible evidence.

Treasury Regulation §1.6001-1(a) states, in relevant part..... “Any person required to file a return of information with respect to income, shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.”

Idaho Code section 63-3042 authorizes the Idaho State Tax Commission to examine any books, papers, records, or other data necessary to ascertain the correctness of a return. Idaho Administrative rule 201.04(a) authorizes the Idaho State Tax Commission to disallow claimed deductions if a taxpayer fails to produce records supporting information shown on a tax return.

In the present case, the majority of the petitioners' contentions had to do with the allowance of deductions. However, the law is well established that the taxpayer has the burden of proof with regard to the allowance of deductions:

Whether and to what extent deductions shall be allowed depends upon legislative grace; and only as there is clear provision therefor can any particular deduction be allowed.

\* \* \*

Obviously, therefore, a taxpayer seeking a deduction must be able to point to an applicable statute and show that he comes within its terms.

New Colonial Ice Co. Inc. v. Helvering, 292 U.S. 435, 440, 54 S.Ct. 788, 790 (1934).

A taxpayer's general statement that his or her expenses were incurred in pursuit of a trade or business is not sufficient to establish that the expenses had a reasonably direct relationship to any such trade or business. Ferrer v. Commissioner, 50 T.C. 177, 185 (1968), affd. per curiam 409 F.2d 1359 [23 AFTR 2d 69- 1481] (2d Cir. 1969).

With regard to several of the protested issues, the petitioners may have been entitled to some, or, with regards to certain expenses, more of a benefit, had they presented documentation to support their positions. However, the petitioners have not met their burden of substantiation for many of the expenses claimed on their 2009 through 2012 income tax returns.

Interest and penalty were added pursuant to Idaho Code §§ 63-3045 and 63-3046. The Commission reviewed those additions and found them proper and in accordance with Idaho Code.

THEREFORE, the Notice of Deficiency Determination directed to [Redacted] and [Redacted] [Redacted] dated August 20, 2014, and modified September 16, 2014, is hereby APPROVED and MADE FINAL.

IT IS ORDERED that the petitioners pay the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$1,099	\$50	\$223	\$1,372
2010	1,755	88	303	2,146
2011	1,498	78	197	1,773
2012	189	10	19	<u>218</u>
			TOTAL DUE	<u>\$5,509</u>

Interest is calculated through December 1, 2015.

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 \_\_\_\_\_ 2015.

IDAHO STATE TAX COMMISSION

\_\_\_\_\_  
COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2015, 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.  
  
\_\_\_\_\_