

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 1-907-085-312
[Redacted] ,)	
)	
Petitioners.)	DECISION
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)	

On April 10, 2014, the Audit Division (Audit) of the Idaho State Tax Commission (Commission) issued a Notice of Deficiency Determination (NODD) to **[Redacted]** (Petitioners). On June 7, 2014, the Petitioners filed a timely request for redetermination. Petitioners provided additional documentation and a modified NODD was issued on January 15, 2015. Petitioners again filed a timely protest and again submitted additional documentation for consideration. A second modified NODD was issued May 1, 2015, which showed several adjustments, only one of which the Petitioners protested.

The Petitioners are Idaho residents for the years under review. For taxable years 2009 through 2011, Petitioners filed resident income tax returns which were selected for review. Audit reviewed the profit or loss from all three of the Petitioners' Schedule C businesses along with the amount of Federal Health Savings Account Contributions claimed by the Petitioners, the Self-employed Health Insurance Premiums deducted, the amount of mortgage interest claimed and the deductions taken for gifts to charity.

As mentioned previously, the original NODD has been modified twice and protested twice as the Petitioners and Audit worked through the issues towards resolution. Petitioners and Audit are in agreement with the adjustments shown on the May 1, 2015, NODD with the exception of one issue, the disallowance in taxable year 2009 of supplies expenses totaling \$22,575. That one disputed issue will be the only item addressed in this decision.

During review of the Petitioners' books and records, specifically the Schedule C business, “[Redacted],” Audit discovered two adjusting journal entries to credit card accounts in the amounts of \$12,486 and \$10,089 that brought these balances to \$0. Petitioners claimed these adjusting entries as “supplies” on their 2009 return. Audit made an adjustment to disallow this expense. Petitioners protested the issue and provided the following explanation from Mr. [Redacted], “My wife was new to Quick Books and didn’t know how to use it properly. Our accountant adjusted the entries so it would balance to zero and educated her on what to enter.” The Petitioners’ appointed representative also provided an explanation similar to that of the Petitioners.

“During the adjusting of the records for the year ending December 31, 2009, each of the Credit Card accounts had debit balances. Evaluation of the account activity reflected that during 2008, (the first year of operation for [Redacted]) the payments to the credit card companies were made and the account charged was the liability account. The individual charges were never entered into the system as expenses.....I recognize that these were charges from the prior year, with analysis of the taxable income and self-employment from each of the years, there would be no change to the taxes that would have been due on the income earned in the two years and the inclusion or exclusion would not change the tax bracket percentage for either of the years.”

Under the cash basis method of accounting, allowable deductions, as a general rule, are taken into account for the taxable year in which paid, (Treas. Reg. 1.461-1(a)(1)). Payments made with a credit card are considered made with borrowed money. Thus a cash-basis taxpayer’s use of a credit card to pay an otherwise deductible expense, qualifies as a payment in the year the credit card charge is made, regardless of when the credit card’s issuer is repaid J.H. Schroeder, TC Memo 1986-583, (1986); Granán V. Commissioner, 55 T.C. 753 (1971).

The Petitioners in this case filed their returns under the cash basis method of accounting. Expenses therefore, whether paid with cash or with credit, are deductible only in the year the

payment was made. Payments made by the Petitioners for supplies or other expenses, in taxable year 2008, can be claimed only on their 2008 tax return. Whether or not the expenses were claimed by Petitioners on their 2008 return, and whether or not the inclusion or exclusion of the expenses in either year would change the Petitioners' tax bracket, is of no relevance. The general rule is that when a deductible payment is made with borrowed money, the deduction is not postponed until the years in which the borrowed money is repaid. *Irving Segall*, 30 T.C. 734, 739-740 (1958); *Hazel McAdams*, 15 T.C. 231, 235 (1950), *affd.*, 198 F. 2d 54 (C.A. 5, 1952); *E. Gordon Perry*, 28 B.T.A. 497, 500 (1933); *Robert B. Keenan*, 20 B.T.A. 498, 499 (1930); *Edwin R. Crawford*, 11 B.T.A. 1299, 1302 (1928); *Patrick v. United States*, 186 F. Supp. 48, 52 (W.D. S.C. 1960), *affd.*, 288 F. 2d 292 (C.A. 4, 1961), *reversed on other grounds* 372 U.S. 53 (1963). The rationale for the rule is that taxpayers should not be able to elect the year in which expenses can be deducted from income. *Robert B. Keenan, supra*. The specific expenses incurred by the Petitioners in taxable year 2008 may very well be deductible, but the payments on the resulting debt in taxable year 2009, is not.

THEREFORE, the Notice of Deficiency Determination dated April 10, 2014, and directed to **[Redacted]**, is hereby MODIFIED, and as modified, AFFIRMED by this decision.

IT IS ORDERED that petitioner pay the following taxes, penalties, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$2,348	\$117	\$585	\$3,050
2010	647	32	131	810
2011	976	108	158	1,242
			TOTAL DUE	<u>\$5,102</u>

Interest is calculated through August 1, 2016, and will continue to accrue at the rate set forth in Idaho Code § 63-3045.

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 _____ 2016.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2016, 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.