

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
[Redacted]) DOCKET NO. 1-927-653-376
)
)
Petitioners.) DECISION
)
_____)

The Idaho State Tax Commission (Commission) reviewed your case and this is our final decision. We modify the Notice of Deficiency Determination (Notice) dated November 30, 2017. This means **you need to pay \$3,989** of tax, penalty, and interest for taxable years 2014 and 2015. The Commission now demands immediate payment of this amount.

The Income Tax Audit Bureau (Bureau) of the Idaho State Tax Commission (Commission) issued a Notice to [Redacted] (Petitioners) proposing added individual income tax, penalty, and interest in the amount of \$5,203 for taxable years 2014 and 2015.

Petitioners' 2014 and 2015 returns were selected for review by the Bureau after receiving notification from the Internal Revenue Service (IRS) that an adjustment had been made to Petitioners' income. The federal audit changed the amount of interest paid and reduced the amount of unreimbursed employee business expenses claimed. In addition, the Bureau reviewed deductions claimed by Petitioners for energy efficiency upgrades (EEU) in both 2014 and 2015, and an alternative energy device (AED) claimed in 2014.

Petitioners were notified of the review and were asked to provide specific information related to the deductions claimed for the EEU and the AED. Petitioners were able to substantiate a portion of the EEU claimed in 2014 but were unable to provide adequate documentation for the deduction claimed in 2015 or for the AED deduction. The Bureau issued Petitioners a Notice reflecting the adjustments made by the IRS and reducing or disallowing the amount claimed for the EEU and AED.

Petitioners filed a prompt appeal and petition for redetermination. The Bureau acknowledged the appeal and sent Petitioners' file to the Commission's appeals unit for administrative review. Petitioners took part in an informal hearing and later provided more information for consideration. The Commission has reviewed all information available and hereby issues its decision.

Idaho Code § 63-3002 provides:

Declaration of intent. It is the intent of the legislature by the adoption of this act, insofar as possible to make the provisions of the Idaho act identical to the provisions of the Federal Internal Revenue Code relating to the measurement of taxable income, to the end that the taxable income reported each taxable year by a taxpayer to the internal revenue service shall be the identical sum reported to this state, subject only to modifications contained in the Idaho law; . . .

The intent of the Idaho Legislature is to mirror the federal determination of income subject only to modifications contained in Idaho law. Following the authority of Internal Revenue Code § 6103(d), the Bureau received information from the IRS that Petitioners' taxable income had increased because of their audit. Petitioners did not let Idaho know of the federal determination within the 60-day period required by Idaho Code § 63-3069 and have provided nothing to show that the IRS has made any changes to their audit. Therefore, the part of the Notice relating the federal redetermination is upheld.

In late 2014, Petitioners began a project to improve the energy efficiency of their home. They replaced outdated windows, added to or replaced existing insulation, added weather stripping and replaced a wood burning stove. Petitioners claimed an EEU deduction of \$7,050 on their 2014 return and \$2,386 on their 2015 return. Petitioners also claimed an alternative energy device deduction in 2014 of \$1,993.

The EEU and AED deductions are outlined in Idaho Code §§ 63-3022B and 63-3022C, respectively.

63-3022B.DEDUCTION FOR ENERGY EFFICIENCY UPGRADES.

(1) An individual taxpayer may deduct from taxable income an amount actually paid or accrued by the individual taxpayer during the taxable year for the actual installation of energy efficiency upgrade measures within any existing residence. As used in this section, “existing residence” means any residence in the state of Idaho that serves as the primary place of residence of the individual taxpayer in being, under construction, or subject to an outstanding legal building permit on or before January 1, 2002.

(2) As used in this section:

(a) “Energy efficiency upgrade measure” means an energy efficiency improvement to the building envelope or duct system that meets or exceeds the minimum value for the improved component established by the version of the international energy conservation code (IECC) in effect in Idaho during the taxable year in which the improvement is made or accrued.

(b) “Energy efficiency upgrade measure” includes:

- (i) Insulation that shall be added to existing insulation not in replacement of existing insulation;
- (ii) Windows that may replace less efficient existing windows;
- (iii) Storm windows;
- (iv) Weather stripping and caulking; and
- (v) Duct sealing and insulation. Duct sealing requires mechanical fastening of joints and mastic sealant.

63-3022C. Deduction for alternative energy device at residence.

-- (1) An individual taxpayer who installs an alternative energy device to serve a place of residence of the individual taxpayer in the state of Idaho may deduct from taxable income the following amounts actually paid or accrued by the individual taxpayer: forty percent (40%) of the amount that is properly attributable to the construction, reconstruction, remodeling, installation or acquisition of the alternative energy device in the year when such device is completed or acquired and is placed in service by the taxpayer; and twenty percent (20%) per year thereafter for a period of three (3) succeeding years; provided, however, that said deduction shall not exceed five thousand dollars (\$5,000) in any one (1) taxable year.

(2) An individual taxpayer who purchases a residence in the state of Idaho served by an alternative energy device for which none or less than all of the total deduction allowable under this section has been taken, may take the deduction specified in this section, or the unused balance of the deduction.

(3) As used in this section, “alternative energy device” means any system or mechanism or series of mechanisms using solar radiation, wind or geothermal resource as defined in section 42-4002, Idaho Code, primarily to provide heating, to provide cooling, to produce electrical power, or any combination thereof. Alternative energy device includes a fluid to air heat pump operating on a fluid reservoir heated by solar radiation or geothermal resource. Alternative energy device shall also include either a natural gas heating unit, or a propane heating unit, or a wood burning stove which meets the most current environmental protection agency certification, or a pellet stove which meets the most current industry and state standards, and which natural gas heating unit, or propane heating unit, or wood burning stove which meets the most current environmental protection agency certification, or pellet stove which meets the most current industry and state standards is used to replace during the same tax year a wood burning stove designed for residential heating and that does not meet environmental protection agency requirements for certification, **provided the wood burning stove is surrendered to the department of environmental quality or its agent for destruction in accordance with applicable federal and state rules.** (Emphasis added.)

Id

During the review of their returns, Petitioners provided the Bureau with receipts to substantiate a part of the 2014 EEU deduction. During the administrative review process Petitioners provided additional documentation. Therefore, the Notice is modified, to allow Petitioners an additional \$3,024 of qualifying expenses related to the 2014 EEU deduction. Petitioners were unable to substantiate any of the EEU deduction in taxable year 2015.

As for the purchase of the wood stove, Petitioners gave a receipt to substantiate cost of the new stove but did not give any documentation to verify the stove was surrendered to the department of environmental quality (DEQ). The above statute is clear. Without verification the old wood stove was surrendered to the DEQ, no deduction is allowed.

Petitioners’ 2014 and 2015 Idaho individual income tax returns also included a credit for taxes paid to North Dakota. During the administrative review process, Petitioners sent copies of the 2014 and 2015 Notice of Determinations issued by the Office of the State Tax Commissioner

in North Dakota, showing that additional tax was assessed in these years. The Commission therefore modifies its Notice to allow Petitioners an additional credit for taxes paid to North Dakota.

Therefore, the Notice dated November 30, 2017, and directed to [Redacted]

is MODIFIED, and as modified, APPROVED and MADE FINAL.

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014	\$1,686	\$84	\$275	\$2,045
2015	1,657	83	204	<u>1,944</u>
			TOTAL DUE	<u>\$3,989</u>

Interest has been calculated through June 28, 2019.

An explanation of Petitioners' right to appeal this decision is enclosed.

DATED this _____ day of _____ 2019.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2019,
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.
