



1. No receipt
2. Duplicate receipts
3. Nondeductible personal expenses
4. No proof of payment
5. Incorrect year
6. No date on receipt
7. Illegible receipt

Petitioners protested and had many questions relating to the Bureau's analysis of the documentation provided. A letter was sent with a list of demands as to why the Bureau was not following Internal Revenue Service (IRS) publications. Additionally, Petitioners provided new documentation for consideration. The documentation was reviewed, and a modified Notice was sent to Petitioners allowing for some additional expenses.

Petitioners continued their protest, again sending a letter with a list of demands. The Bureau acknowledged their protest and transferred the case to the Tax Commission Appeals Unit (Appeals). An informal hearing was held with Petitioners and Appeals where many of the questions and demands were discussed. At the conclusion of the hearing, it was agreed that additional documentation will be provided to potentially resolve the case. After the hearing, Petitioners provided additional documentation for consideration. The Tax Commission has reviewed the additional documentation and hereby issues its decision.

### **LAW AND ANALYSIS**

Internal Revenue Code (IRC) section 162 provides for the deduction of all the ordinary and necessary expenses paid or incurred in carrying out a trade or business. Idaho Code section 63-3042 allows the Tax Commission to examine a taxpayer's books and records to determine the correctness of an Idaho income tax return. Tax Commission Administration and Enforcement Rule IDAPA 35.02.01.200 provides that, "A taxpayer shall maintain all records that are necessary to a determination of the correct tax liability."

Deductions are a matter of legislative grace, and the taxpayer bears the burden of proving that he is entitled to the deductions claimed. *New Colonial Ice Co., Inc. v. Helvering*, 292 US. 435, 440, 54 S.Ct. 788 (1934). Taxpayers are required to maintain records that are sufficient to enable the determination of their correct tax liability. See IRC § 6001; Treasury Regulation § 1.6001-1(a). The burden rests upon the taxpayer to disclose his receipts and claim his proper deductions. *United States v. Ballard*, 535 F.2d 400, 404 (1976). If a taxpayer is unable to provide adequate proof of any material fact upon which a deduction depends, no deduction is allowed, and that taxpayer must bear his misfortune. *Burnet v. Houston*, 283 U.S. 223, 51 S.Ct. 413 (1931). 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. *Near v. Commissioner of Internal Revenue*, T.C. Memo. 2020-10 (2020). Items discussed in the upcoming sections are, in Petitioners' minds, unresolved issues, deductions that they believe were properly substantiated.

#### Schedule C – Profit or Loss From Business

##### Supplies Expense:

Petitioners purchased supplies for their business from a variety of vendors, including Home Depot, Lowes, Amazon, Costco, Walmart, D&B Supply, etc. Some items were properly substantiated with receipts or paid invoices that list the date and a clear description of the item. However, Petitioners did not have proper documentation for many of the expenses in this category claimed on their return. For example, they provided bank statements with QuickBooks journal entries showing the vendor, date, and total amount spent, but no itemized description of the items purchased. Without this information, the Tax Commission cannot allow the expenses claimed. As mentioned earlier, a taxpayer's general statement that his or her expenses were incurred in pursuit

of a trade or business is not sufficient. Petitioners' bank statements show proof of payment, but unfortunately fall short of the strict substantiation requirements laid out by the IRS. Petitioners have provided documentation related to their Amazon purchases, which were not previously allowed in the modified Notice, but will be allowed in this decision. Some of the Amazon purchases were not allowed and were discussed with Petitioners when reviewing the invoices. It appears Petitioners agree with most of the adjustments, but the portions they did not agree with will be discussed. The protested items will be labeled with the date purchased associated with the invoice number.

November 24, 2021, # 112-5323588-5905810

This invoice shows multiple items. In the QuickBooks description, Petitioners state this purchase was for "tow strap, tree strap for removal." The total amount shown on the invoice was \$260.68. In QuickBooks, the amount was entered as \$269.68. Additionally, included in this business invoice were "whiskey stones" for \$39.95. In correspondence with Petitioner, the allowable amount for this invoice should be \$220.73 adjusting the true amount listed on the invoice and disallowing the personal expense of the whiskey stones. Petitioners argued the whiskey stones were a gift for a client, and the \$25 allowable gift expense per year per client should be allowed. The documentation does not support this statement, as the client gifts in other periods are specifically listed in their QuickBooks ledgers. Therefore, the whiskey stones are determined to be a personal expense and not deductible.

November 8, 2021, # 112-2602658-1090647

This invoice has two orders, one for \$10.60 and one for \$42.39. According to the QuickBooks description, these were for “Tens EMS.” More specifically, the Amazon invoice description states it was a muscle stimulator electric pulse massager. In correspondence with Petitioners, it appears they understand why this was disallowed as a personal expense but did not understand where the \$42.39 came from. According to the Amazon invoice, the purchase was for \$10.60. While this appears to be the case on the Amazon invoice, Petitioners’ QuickBooks statements show \$10.60 and \$42.39. The Tax Commission will go off what the QuickBooks ledgers say, as they reflect the tax return.

July 9, 2021, # 112-8520709-0823446

This item was disallowed as a personal expense. The Amazon description reads: “SUPAREE Double-Layer Tailgate Table for Jeep Wrangler JK 2007-2017 Door Rear Door Table Cargo Shelf Storage Cargo Luggage Holder Carrier.” Petitioners argue this item was used for sprinkler repairs. It was used to hold glue, PVC parts, tools, etc. According to information available to the Tax Commission, Petitioners own a 2007 Jeep Wrangler that they use as a personal vehicle. The tailgate table physically attaches to the vehicle’s rear door and is specifically designed for the Jeep Wrangler. Since Petitioners do not list the Jeep Wrangler as a business vehicle, this purchase has been deemed as a personal expense and not deductible.

December 30, 2019, # 111-9975085-6976206

According to the Amazon invoice, this order had four items, totaling \$190.71. Petitioners’ QuickBooks ledgers showed four items totaling \$257.96. When this difference was explained to Petitioners, they asked “why is \$37.05 listed twice?” It is not clear why the

numbers on the Amazon invoice and QuickBooks ledger are different, but it is clear they are and need to be adjusted.

Petitioners appear to agree with the rest of the adjustments, so no other explanations are necessary. Supplies expenses that were properly documented will be allowed on their 2019 through 2021 returns.

Fuel on Off-Highway Equipment:

Petitioners claimed fuel used on their lawn care equipment as an “other expenses” deduction, rather than using ID Form 75 or Federal Form 4136 to receive tax credits on fuel purchased for off-highway equipment. “Other” expenses claimed on Federal Schedule C are specific, and do not include any items not shown as a line item on the Schedule. According to IRS News Release FS-2007-17, items that can be claimed as “other” include:

- Amortization costs
- Bad debts
- Business start-up costs
- Gulf Opportunity Zone clean-up costs

Furthermore, Petitioners only provided bank statements and Mavrick statements to substantiate the deduction. According to Idaho Motor Fuels Tax Administration Rule 270.04,

When claiming a refund of tax for fuel purchased from a retail outlet, a receipt is required. The vehicles or piece of equipment using the fuel must be recorded on the receipt. If claiming refunds for fuel used in more than one vehicle or piece of equipment, make sure all the vehicles and equipment are identified on each receipt. When placing fuel into containers for use in vehicles, pieces of equipment, or commercial motorboats, identify into which the fuel is placed on the receipt. No other records are required if the fuel from the container isn't used in licensed or required to be licensed motor vehicles.

Petitioners have not met the requirements for record keeping according to Idaho Code and Rules. Therefore, no deduction is allowed on their 2019 through 2021 returns.

Next, the items not allowed on the modified Notice but allowed in this decision will be discussed in this section:

Depreciation:

In the modified Notice, the Bureau allowed section 179 depreciation in 2019 for a trailer purchased from Trailer Wholesale. However, they did not allow depreciation for a truck Petitioners put into service in May of 2015. Examining the depreciation information, it appears Petitioners claimed 2/3rds of the net cost of the vehicle instead of claiming one year of depreciation. While Petitioners' calculations are not correct, they are allowed to deduct \$2,687, which is calculated using a depreciation basis of \$13,437, and "placed into service" date of May 2015. Depreciation was calculated using the straight line half year method.

Contract Labor:

The Bureau did not allow for \$858 in contract labor in 2019 due to lack of documentation. The Tax Commission has reviewed additional information provided and has determined that Petitioners have properly documented the expense. The \$858 in contract labor claimed in 2019 is therefore allowed.

Utilities:

Petitioners provided Verizon statements to substantiate this expense, stating they used their phones for business use. In the modified Notice, the Bureau determined Petitioners did not properly document their personal and business use percentages and therefore none of it was deductible. During the informal hearing, Petitioners discussed with Appeals what would be a reasonable estimate of their business use percentage of their cell phones. Petitioners agreed that 75% of their total bill would be reasonable.

Insurance:

The modified Notice disallowed \$603 in 2019 for undocumented insurance expense. During the appeals process Petitioners documented this expense through invoices and bank statements. The Tax Commission accepts this documentation and will allow the \$603 worth of insurance disallowed in 2019. Additionally, Petitioners provided documentation for insurance not claimed on their returns for 2020 and 2021. Both years will be granted \$591 in allowable insurance expenses.

Bad Debt:

The Bureau believed Petitioners used the cash basis method, and therefore could not claim bad debt expenses since only accrual basis accounting accounts for it. Examining their tax returns, it does say they used the cash basis method. However, the QuickBooks statements provided show they used the accrual method, so their accounting software indeed reported the income never received. Typically, cash basis businesses would not report the income at the end of the year if they were still trying to collect from the customer. In accrual methods, the taxpayer would report all “receipts” even if no cash was exchanged. Petitioners provided names and amounts for all the clients that did not end up paying for each year. Therefore, the Tax Commission allows \$900 for 2019, \$215 for 2020, and \$49 for 2021, respectively. Any additional amounts claimed on the returns were not allowed because they were not substantiated.

Bank Fees:

Petitioners documented a portion of the bank fees claimed on their returns through bank statements. However, it appears most of the bank fees claimed were for overdraft fees. Since Petitioners do not have separate business bank accounts, the overdraft could have been related to personal spending rather than business spending. Furthermore, in the case *Asa M. Bailey, Jr. vs*



*Commissioner*, TC Memo 1991-385, the IRS found the taxpayer’s business deductions on bank overdraft fees were not proven to be normal, usual, or customary in their business. There has been no communication with Petitioners stating they disagree with this adjustment. Therefore, only service fees were allowable, providing \$80 in 2019, \$72 in 2020, and \$96 in 2021.

Below is a schedule allowing for additional deductions due to documentation provided during the appeals process:

	2019	2020	2021
Income per Modified Notice	\$ 42,608	\$ 34,848	\$ 42,882
<u>Adjustments per Documentation</u>			
Truck Depreciation	(2,687)		
Contract Labor	(858)		
Verizon (75% Business)	(1,819)	(1,418)	(1,541)
Amazon	(877)	(942)	(851)
Insurance	(603)	(591)	(591)
Bad Debt	(900)	(215)	(49)
Bank Fees	(80)	(72)	(96)
Taxable Income Revised	34,784	31,610	39,754
Corrected Tax Liability	1,877	1,649	2,100
Tax Per Return	89	1,379	1,836
Additional Tax	<u>\$ 1,788</u>	<u>\$ 270</u>	<u>\$ 264</u>

### CONCLUSION

The Bureau sent Petitioners a Notice for tax years 2019, 2020, and 2021. Additional information was provided, and a modified Notice was issued. During the appeals process, additional documentation was provided for consideration. The Tax Commission has reviewed all the information available and finds the modifications in this decision more accurately represent Petitioners’ Idaho taxable income.

The Bureau added interest and penalty to Petitioners' tax liability. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046.

THEREFORE, the Tax Commission MODIFIES the modified Notice of Deficiency Determination dated June 14, 2023, directed to

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$1,788	\$89	\$223	\$2,100
2020	270	14	10	294
2021	264	13	5	282
			Payment Received:	<u>(838)</u>
			<b>TOTAL DUE</b>	<b>\$1,838</b>

Interest is calculated through May 29, 2024.

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

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

DATED this \_\_\_\_\_ day of \_\_\_\_\_ 2024.

IDAHO STATE TAX COMMISSION

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2024,  
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:

Receipt No.

---

---