BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	of)))	DOCKET NO. 0-044-999-680
Pe	titioners.)	DECISION

The Intrastate Income Tax Audit Bureau (Bureau) sent (Petitioners) a Notice of Deficiency Determination (Notice) for tax years 2019 through 2021. Petitioners protested, providing additional information to substantiate farming expenses claimed on their returns. The Bureau reviewed the documentation and sent Petitioners a modified Notice reducing the amount due from \$13,779 to \$8,367. The Tax Commission has reviewed the case and hereby upholds the modified Notice issued by the Bureau.

BACKGROUND

The Bureau conducted an examination of Petitioners' 2019 through 2021 Idaho income tax returns, specifically their Idaho net operating loss and alfalfa farming operation reported on Federal Schedule F. Petitioners claimed an Idaho net operating loss of \$59,258 in 2019 with no history of losses in previous years. The Bureau also requested Petitioners' general ledger and documentation for the expenses related to the alfalfa operation. Petitioners responded at first but did not provide documentation in a timely manner. The Bureau then sent Petitioners a Notice of Deficiency Determination disallowing the Idaho net operating loss and farming expenses claimed on their 2019 through 2021 returns. Petitioners protested and provided documentation for the Bureau to consider related to the alfalfa farming operation. They did not protest the net operating loss adjustment.

Petitioners provided receipts for gas, supplies, repairs and maintenance, and rent/lease expenses. In review of the documentation, the Bureau accepted expenses related to traveling to Utah for auctions, most supplies expenses claimed, section 179 depreciation on a baler, farmland lease expenses, and some repairs that were properly substantiated. The Bureau did not receive documentation for chemical expenses, feed expenses, insurance, utilities, and veterinary expenses. In the modified Notice, the Bureau scheduled all the items that were properly documented and reduced the total amount owed. Petitioners did not respond to the modified Notice, so the Bureau acknowledged their original protest and transferred the case to the Tax Commission's Appeals Unit (Appeals).

Appeals sent Petitioners a letter on February 15, 2024, and attempted to call them to establish contact. Petitioners did not respond. Therefore, the Tax Commission must make its decision on the information currently available.

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 section 6001; Treasury Regulation section

1.6001 – 1(a). The burden rests upon the taxpayer to disclose his receipts and claim is 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). In review of the modifications the Bureau made based on the documentation provided, the Tax Commission finds the Bureau did a proper and fair review of Petitioners' documentation.

CONCLUSION

The Bureau sent Petitioners a Notice for tax years 2019 through 2021. Additional information was provided, and a modified Notice was issued. Petitioners did not respond to the modified Notice or to Appeals. The Tax Commission has reviewed all the information available and finds the modifications in the modified Notice more accurately represent Petitioners' Idaho taxable income.

THEREFORE, the Tax Commission AFFIRMS the modified Notice of Deficiency Determination dated November 30, 2023.

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

<u>YEAR</u>	\underline{TAX}	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$1,942	\$237	\$2,179
2020	2,619	242	2,861
2021	3,115	223	3,338
		TOTAL DUE	\$8,378

Interest is calculated through December 31, 2023.

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 thisa copy of the within and foregoing DECIS mail, postage prepaid, in an envelope address.	ION was served by se	2024, ending the same by United States
	Receipt 1	No.