

Bureau he hoped to have all returns filed by mid-October 2024. The Bureau issued the Notice on October 1.

On December 2, 2024, AIF submitted a request for redetermination. He disputed the following items:

- Filing status: Petitioner was married and intended to file jointly with his wife.
- Estimated pass-through income: The two businesses whose pass-through income was included in the Notice were to be reported as sole proprietorships on Schedule C.
- Carryovers from 2016: The Bureau did not include Idaho net operating loss and investment tax credit carryovers from Petitioner's 2016 Idaho return.

AIF stated that the accounting for the two businesses had been reconciled and the returns would be provided soon.

The Bureau sent a letter acknowledging the timely protest and provided a schedule for filing correct returns. The letter indicated that if the requested information was not received, the Bureau would transfer the matter to the Tax Commission's Tax Appeals unit (Appeals) for resolution.

AIF submitted individual income tax returns for tax years 2017 in late December 2024, 2018 in early January 2025, 2019 in late January 2025, and 2020 in early February 2025, generally following the Bureau's prescribed schedule. After a reminder and extension to file the next return, AIF submitted a return for 2021 in late March 2025. After receiving each return, the Bureau sent a letter cancelling the Notice for the specific year for which the return had been filed and sent the returns through the Tax Commission's normal review and processing steps.

In May 2025, AIF informed the Bureau that he had not received from the owners the information needed to file a correct return for 2022. After another month, the final return had not been filed, so the Bureau transferred the matter to Appeals. In August 2025, Appeals sent a letter providing the options available for redetermining a protested Notice. AIF contacted Appeals,

stating that Petitioner and his wife still had not provided the necessary information, but he was willing to reach out to them again. Appeals granted an extension to file the last missing return, but it was never filed. In the absence of an actual return, the Tax Commission must make its decision based on the information currently available.

Law & Analysis

The Bureau's Notice dated October 1, 2024, included tax years 2017 through 2022. Returns were filed for 2017 through 2021. The Bureau cancelled the Notice for these specific years after receiving each year's return. These years are not in dispute and will not be mentioned further in this decision other than for historical background. The only year included in the Notice left unfiled is 2022.

When the Bureau prepared the Notice, Petitioner's most recent filed returns used the Married Filing Joint status. However, the Bureau did not have sufficient information to verify that Petitioner and his wife were still married or that they intended to file jointly for the missing years. In his protest, AIF stated that Petitioner and his wife did intend to file joint returns. This proved to be true for the missing returns that were filed. Additionally, AIF indicated that the two businesses Petitioner co-owned would be reported as disregarded entities on Schedule C instead of being reported as pass-through entities. This also held true on the missing returns that were filed.

Based on these actual returns, the Tax Commission determined that Petitioner's filing status should be changed from Single to Married Filing Jointly, and the two spouses should report all their income on a single joint return. In a related protested Notice, the Bureau asserted separate income for Petitioner's wife. In a related Appeals docket,¹ the Tax Commission canceled that

¹ 0-659-461-120

Notice. Therefore, this decision includes income from both spouses reported on Form 1099. Other income and adjustments are explained below.

Petitioner and his wife wholly owned two businesses in 2022, [REDACTED] [REDACTED] [REDACTED] ([REDACTED] and [REDACTED] [REDACTED] [REDACTED] ([REDACTED] In related protested Notices, the Bureau estimated income and expenses for [REDACTED] and [REDACTED] and assigned the net income to Petitioner and his wife separately. In related Appeals dockets,² the Tax Commission canceled those Notices. Using the recently filed 2019, 2020, and 2021 Schedule C, the Tax Commission estimated income and expenses for [REDACTED] and [REDACTED]. The methodology used for estimating gross receipts and business expenses is as follows.

For each year 2019 through 2021, the Tax Commission calculated the percentage of payroll to gross receipts for each business by dividing the total payroll (cost of labor included in cost of goods sold, plus separately deducted wage expense) by the gross receipts. The Tax Commission then calculated the three-year average percentage for each business. For tax years 2019 through 2021, the total payroll reported on Schedule C was on average 14% of the gross receipts reported for [REDACTED] and 19% of gross receipts for [REDACTED].

Similarly, the Tax Commission calculated the three-year average percentage of expenses (other than payroll) to gross receipts. For tax years 2019 through 2021, the total non-payroll expenses reported on Schedule C was on average 78% of the gross receipts reported for [REDACTED] and 71% of gross receipts for [REDACTED].

Both [REDACTED] and [REDACTED] reported payroll amounts for 2022 on Form 697, *Idaho Annual Withholding Report*. Using the amounts reported, the Tax Commission calculated estimated gross receipts by dividing the reported payroll amount by the three-year average percentage of payroll

² 0-814-715-904 and 0-259-429-376

to gross receipts.³ The Tax Commission then calculated estimated non-payroll expenses by multiplying the estimated gross receipts by the three-year average percentage of expenses to income.⁴ Finally, the Tax Commission calculated estimated profit by subtracting actual payroll and estimated other expenses from estimated gross receipts.⁵

Although the Notice included it, AIF did not specifically dispute Schedule F estimated income. However, based on information made available after the Bureau issued the Notice, the Tax Commission determined that the Bureau's estimate of Schedule F income is not as accurate as it could be. Since at least 2005, Petitioner and his wife have reported losses on Schedule F. Unlike with the estimates for the Schedule C businesses, the Tax Commission does not have any concrete way to estimate income and expenses for Schedule F. Given the long history of Schedule F losses, the Tax Commission determined that the most reasonable estimate of net gain or loss is \$0.

When a taxpayer earns a net profit from self-employment activities such as those reported on Schedules C and F, they are required to pay self-employment tax based on that profit. They are then eligible to claim a deduction from gross income for one-half of the self-employment tax. Based on the estimated profit from Schedule C, the Tax Commission calculated the allowable deduction and included it in the calculation of federal adjusted gross income and Idaho taxable income.

In his protest, AIF stated that Petitioner and his wife had carryover of Idaho net operating loss (NOL) from before 2017 that was not considered in the Bureau's Notice. When the 2017 through 2021 returns were filed, they accounted for this carryover into 2017 and included any

³ For [REDACTED] $\$205,018 / 14\% = \$1,516,232$. For [REDACTED] $\$61,201 / 19\% = \$323,456$.

⁴ For [REDACTED] $\$1,516,232 \times 78\% = \$1,176,900$. For [REDACTED] $\$323,456 \times 71\% = \$228,208$.

⁵ For [REDACTED] $\$1,516,232 - \$205,018 - \$1,176,900 = \$134,315$. For [REDACTED] $\$323,456 - \$61,201 - \$228,208 = \$34,047$.

additional NOL earned and absorbed through 2021. According to the Tax Commission's calculations, Petitioner and his wife had an Idaho NOL carryover of \$13,593 going into tax year 2022. The Tax Commission included this amount when calculating Idaho adjusted income and taxable income:

1099 income	\$2,026
Schedule C profit ([REDACTED])	\$134,315
Schedule C profit ([REDACTED])	\$34,047
Self-emp. tax deduction	(\$11,368)
Schedule F	<u>\$0</u>
Federal adjusted gross income	\$159,020
Idaho NOL carryover*	<u>(\$13,593)</u>
Idaho adjusted income	\$145,427
Standard deduction	<u>\$25,900</u>
Idaho taxable income	\$119,527

*Petitioner and his wife have no remaining Idaho NOL carryover after 2022.

Based on this taxable income, the joint tax liability is \$6,707.

In his protest letter, AIF also mentioned that the Bureau did not consider carryover of investment tax credit (ITC) in the Notice. Based on actual returns filed, the Tax Commission calculated the amount of ITC carried forward into 2022, used in 2022, and carried forward after 2022:

<u>Year ITC earned</u>	<u>Balance into 2022</u>	<u>Used in 2022</u>	<u>Balance after 2022</u>
2013	611	611	0
2014	1,612	1,612	0
2015	1,055	1,055	0
2016	2,856	75	2,781
2018	6,379	0	6,379
2020	<u>1,601</u>	<u>0</u>	<u>1,601</u>
	14,114	3,353	10,761

Because Petitioner and his wife were required to file an income tax return for 2022, they are required to pay the \$10 permanent building fund tax. The Tax Commission determined that

Petitioner and his wife were more than likely eligible to claim the food tax credit of \$100 per eligible individual. After all taxes and credits were considered, the Tax Commission determined that Petitioner and his wife owed \$3,163 for 2022.

The Bureau added interest and penalty to Petitioner’s tax deficiency. The Tax Commission reviewed those additions and finds their inclusion to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

Based on actual returns filed for 2017 through 2020, Petitioner and his wife had a credit balance of \$1,695. They also had an unpaid refund balance of \$492 from their 2021 return. These amounts are available to offset Idaho tax and are included in the Order at the end of this decision.

Conclusion

While Petitioner did not file an income tax return for 2022, the Tax Commission received information after the Bureau issued the Notice that allows a more reasonable estimation of Petitioner’s joint taxable income and tax liability.

THEREFORE, the Notice dated October 2, 2024, and directed to [REDACTED] is hereby MODIFIED and MADE FINAL.

IT IS ORDERED that [REDACTED] pay the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$3,163	\$791	\$542	\$4,496
		2017-2020 credits forward		(1,695)
		2021 refund held		(492)
		Total due		<u>\$2,309</u>

The Tax Commission DEMANDS immediate payment of this amount. Interest is calculated in accordance with Idaho Code section 63-3045.

An explanation of Petitioner and his wife's right to appeal this decision is enclosed.

DATED this _____ day of _____ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2026,
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.

[REDACTED]

[REDACTED]