

In the Matter of the Protest of

Petitioners.

██████ (Petitioners) protested the Notice of Deficiency Determination (Notice) dated January 10, 2025. Petitioners disagree with the adjustments to their 2021 Idaho part-year Resident and Nonresident Income Tax Return. The Tax Commission reviewed the matter and upholds the modified Notice.

Petitioners filed their 2021 Idaho part-year resident and nonresident income tax return showing Mr. [REDACTED] as a military nonresident and Mrs. [REDACTED] as a resident. While processing Petitioners' return, their residency status was questioned, and the return was referred to the Tax Commission's Income Tax Audit Bureau (Audit) for review. Audit contacted Petitioners and requested they provide information about their residency in Idaho for 2021. Additionally, Audit asked Petitioners to substantiate the following: Long-Term Care Deduction, Schedule C, and Schedule E expenses. Petitioners did not respond. Audit sent a second request for this information. Petitioners again did not respond.

- Changed Mr. [REDACTED] Residency status to Idaho
- Increased Income Reported to Idaho
- Increased the Idaho Itemized Deductions
- Disallowed expenses for both Schedule C's (Sales and Admin)
- Reduced Schedule E expenses
- Added Retirement Benefits Deduction
- Disallowed Long-Term Care Deduction

- Disallowed Bonus Depreciation Subtraction
- Added Unreported Income
- Reduced Student Loan Interest Deduction
- Added Penalty and Interest

In response to the Notice, Mrs. [REDACTED] called and requested a meeting to discuss the adjustments she believes are incorrect. During the meeting Mrs. [REDACTED] confirmed that both she and Mr. [REDACTED] were Idaho residents in 2021, and she also explained the nature of her Schedule C businesses.

Petitioners subsequently protested the Notice and submitted an amended 2021 return, a Form 40, showing Mr. [REDACTED] as a resident and removing the Long-Term Care Deduction, but making no other changes. Petitioners later provided additional information to substantiate some of the expenses claimed. Audit sent Petitioners a modified Notice based on their amended 2021 return and the new information they provided.

Petitioners maintained their objection to the modified Notice providing reasons why their disallowed Schedule C and Schedule E expenses are valid. Petitioners provided more information for some of the expenses claimed and stated, in a letter from Mrs. [REDACTED] “The rest of the items on the letter will either be explained by these documents or I am not refuting them.” The following are the adjustments that are no longer in dispute:

- Residency Status of Mr. [REDACTED]
- Income Reportable to Idaho
- Itemized Deductions
- Retirement Benefits Deduction
- Long-Term Care Deduction
- Bonus Depreciation Subtraction
- Unreported Income
- Student Loan Interest Deduction
- Penalty and Interest

Audit considered this additional information but made no additional changes to the modified Notice and referred the matter to the Tax Commission's Appeals unit (Appeals) for administrative review.

Appeals reviewed the matter and sent Petitioners a letter that discussed the methods available for redetermining a Notice. Petitioners responded, stating they provided all the information they wanted the Tax Commission to consider. Petitioners did not request an informal hearing. Therefore, the Tax Commission decides the matter based upon the information 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 on 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." See also IRC section 6001; Treasury Regulation section 1.6001-1(a).

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). 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).

In tax year 2021, Petitioners actively operated two businesses, owned a rental property, and claimed significant expenses for all three activities. Most of these expenses were disallowed or reduced and are the basis for this decision.

Schedule C: Administrator

Mrs. [REDACTED] is a 1099 employee of [REDACTED] [REDACTED],¹ where she works 3-4 hours a week as an administrative assistant for the CEO.

Mrs. [REDACTED] 2021 Schedule C for her administrative business showed income of \$9,314 and expenses of \$51,721, with the majority being supplies in the amount of \$33,629. Those expenses that were adequately substantiated were allowed. The remaining expenses were disallowed as Petitioners did not meet their burden of proving entitlement to the deduction.

Schedule C: Sales

Petitioners' other business activity is described as "sales". Petitioners travel to secondhand stores, garage/estate sales, etc. and purchase items for resale. These items are stored in a 40 x 20 shop located on Petitioners' property and then sold on various websites.

Petitioners' sales business showed income of \$3,314 and expenses of \$25,365, with the majority being depreciation in the amount of \$22,742. According to Petitioners' federal Form 4562, Depreciation and Amortization, the property being depreciated is a 2015 Cadillac Escalade, which is classified as listed property.²

¹ [REDACTED] is a [REDACTED] company that helps solopreneurs and small teams get things done by [REDACTED] [REDACTED]

² A Cadillac Escalade is treated as "listed property" because it is a passenger automobile/transportation vehicle under IRC section 280F(d)(4), so its depreciation is subject to the strict substantiation rules in IRC section 274(d), which override the general rules in IRC section 162. Under section 274(d), no deduction (including depreciation) is allowed for listed property unless the taxpayer substantiates, by adequate records or sufficient corroborating evidence,

To support the depreciation expense deduction Petitioners submitted what appears to be a Word or Excel created mileage log. While the log includes dates, beginning and ending odometer readings, and the stated purpose of each trip, it does not show any personal use, does not appear to have been created at the time of the travel and most importantly, it does not list the Cadillac Escalade. The vehicles listed on the mileage log are a 2020 GMC Denali and a 2018 Ram.

Federal Form 4562, Depreciation and Amortization, is used to claim deductions for Section 179 expenses, depreciation, amortization, and listed property. In this case, Petitioners' 2021 federal Form 4562 shows the depreciating vehicle, but the mileage amounts do not match the mileage log, which lists two vehicles for which no depreciation deduction was claimed.

The mileage log provided does not meet the strict requirements under section 274(d), which states no deduction (including depreciation) is allowed for listed property unless the taxpayer substantiates, **by adequate records or sufficient corroborating evidence.** (Emphasis added) The mileage records submitted by Petitioners are not reliable. Petitioners did not meet their burden of proving entitlement to the depreciation deduction; therefore, no deduction is allowed.

Those expenses that Petitioners adequately substantiated were allowed.

Schedule E: Cabin Rental

Petitioners included with their return a Schedule E for their rental property, a small cabin

■■■■■ that they rented for less than 90 days in tax year 2021.

The \$33,773 expenses claimed on Petitioners' 2021 Schedule E, consisted mainly of a prior year loss carryover deduction in the amount of \$24,500. However, due to an audit adjustment of Petitioners' 2020 return, this loss was eliminated. Therefore, Petitioners have no loss available to

(1) the amount of expense or use, (2) the time and place of use, (3) the business purpose, and (4) the business relationship.

claim on their 2021 Idaho return. The expense claimed for cabin rental management fees was allowed in full and the remaining expenses were adjusted and allowed, based on the rental use percentage of 50.29%.

CONCLUSION

Taxpayers have no inherent right to deductions; they are a matter of legislative grace. *Interstate Transit Lines v. Commissioner*, 319 U.S. 590, 593, 63 S.Ct. 1279, 1281, 87 L.Ed. 1607 (1943); *New Colonial Ice, Inc. Co. v. Helvering*, 292 U.S. 435, 440, 54 S.Ct. 788, 790, 78 L.Ed. 1348 (1934). Therefore, when seeking a deduction, a taxpayer must be able to point to some particular statute to justify his deduction and establish that they come within its terms. *Deputy et al. v. Du Pont*, 308 U.S. 488, 493, 60 S.Ct. 363, 366, 84 L.Ed. 416 (1940). In this case, Petitioners do not come within the terms of the applicable statutes for their claimed expenses.

Therefore, the modified Notice dated June 11, 2025, and directed to [REDACTED]

[REDACTED] is hereby APPROVED and made FINAL.

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$6,078	\$722	\$330	\$7,190
			Less: Held Refund	<u>(\$3,190)</u>
			TOTAL DUE	<u>\$4,000</u>

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

An explanation of Petitioners' 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.


