

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

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Petitioner.

DOCKET NO. 0-449-143-808

DECISION

■■■■■ (Petitioner) protested the Notice of Deficiency Determination (Notice) dated September 22, 2023, and a modified Notice dated December 19, 2023, for tax year 2019. The Tax Commission reviewed the matter and hereby issues its final decision to further modify the Notice.

Background

Petitioner filed federal and Idaho income tax returns for 2019 using the Single filing status. The Idaho return was received electronically on October 12, 2020. The Tax Commission's Income Tax Audit Bureau (Audit) selected this return for examination. On August 3, 2023, Audit sent Petitioner a letter requesting documentation, invoices, and receipts to substantiate the expenses reported on Schedule F. Audit asked what the "show expenses" and "board and training expenses" were as reported on Schedule F and how the expenses related to Petitioner's business. Audit also requested documentation of the "show expenses" and "board and training expenses", along with a copy of Petitioner's general ledger and both federal and Idaho depreciation schedules for 2019.

Petitioner appointed a representative in late August 2023. Sometime prior to September 7, 2023, the representative provided over 100 documents from 2019 including bank and credit card statements, receipts, invoices, cancelled checks, and other documents. Audit requested a waiver of the normal three-year statute of limitations to assess additional tax, which would allow additional time for Petitioner and her representative to gather and submit requested documentation and for

Audit to review the documentation and make a better-informed determination. On multiple occasions between his appointment as representative and the issuance of the first Notice, the representative told Audit he would prefer not to extend the statute of limitations.

During a phone call with Petitioner's representative on September 7, 2023, Audit noted many documents showing expenditures by a person named [REDACTED] [REDACTED] and there was nothing linking him and Petitioner. The representative explained that [REDACTED] and Petitioner are long-time "companions," that [REDACTED] had no money or property of his own, and that Petitioner pays for everything. Audit stated that, in order to claim [REDACTED] purchases as farm expenses, they would need to file a joint return. Following another phone conversation, Petitioner's representative submitted additional documents on September 12, 2023. Audit reviewed the documentation submitted to date and determined that Petitioner was allowed to claim \$46,674 as farm expenses, instead of the \$75,910 in expenses reported on Schedule F. Based on this determination, Audit issued the original Notice on September 22, 2023. Audit denied expenses for these reasons:

- The purchase was made by or billed to [REDACTED] [REDACTED] and not Petitioner directly, or the document in support of the expenditure was unclear who made the purchase.
- The document in support of the expenditure did not include enough information to validate a business expense.
- The business purpose of the purchase was not clear.

After Audit approved the Notice for mailing, but before it was actually mailed, Petitioner's representative provided Audit with additional documents. Audit explained to the representative that the new documents would be reviewed after a valid protest was submitted.

In a letter dated November 13, 2023, Petitioner's representative protested the Notice, stating it "is incorrect and does not take into account supporting documentation previously provided," and "It was also determined that an amended tax returns [sic] was necessary to properly reflect 2019 depreciation for assets put into service during the year." Petitioner's representative

submitted additional documentation along with an unsigned, undated amended Idaho income tax return for 2019. On November 16, 2023, Petitioner's representative provided a signed, dated copy of the amended Idaho income tax return and a dated copy of an amended federal return. Both were dated November 10, 2023. On November 17, 2023, Audit sent a letter acknowledging the protest and requesting any additional information to be considered by December 7, 2023.

Audit reviewed the amended returns and determined that they were not acceptable. Audit did, however, allow additional expenses of \$5,241 on Schedule F for 2019. On December 19, 2023, Audit issued a modified Notice updating the adjustments. On December 27, 2023, Petitioner's representative sent Audit an email disagreeing with Audit's calculations and non-acceptance of the amended returns. He stated that there were two substantial changes on the amended returns: a revocation of the election to expense depreciable property under Internal Revenue Code (IRC) Section 179; and the inclusion of additional depreciable property (specifically two animals that were not placed in service until 2019, but which had incurred costs during 2018). He also stated, "There is no reason or methodology that would allow for you not to accept an amended return as it was timely filed and in compliance with instructions from [Audit]."

Audit held a conference call with Petitioner's representative on January 18, 2024. Audit explained that the amended return was denied because it appeared that some expenses were claimed twice and asked if the return had been accepted by the IRS. Petitioner asked why that would matter. Audit then explained that the calculation of Idaho taxable income begins with the federal return, and if the IRS has not accepted the amended federal return, then the Idaho return isn't valid because there would be a discrepancy between the two. Petitioner's representative explained that he was more concerned with submitting information to Audit, and it would take about six months for the IRS to accept the amended return. Audit asked if there was any tracking

on the return, to which the representative said there was not. The conversation eventually turned to [REDACTED] and why Audit was denying the expenditures in his name. Audit explained that there was nothing tying [REDACTED] credit card to Petitioner's bank statement showing that she was truly paying for all the expenses.

Audit sent a letter on January 26, 2024, requesting more information for tax year 2019 in conjunction with a separate but concurrent examination of some of Petitioner's other income tax returns. Petitioner's representative provided additional documentation on February 9, 2024. On February 12, 2024, Audit informed Petitioner's representative that no additional changes were being made to the modified Notice dated December 19, 2023.

In the separate but concurrent examination of Petitioner's other income tax returns, a Notice was issued on May 14, 2024, which Petitioner also protested. Audit notified Petitioner's representative, "It appears that we are at an impasse regarding the adjustments in the tax years audited." Audit then forwarded the matter to the Tax Commission's Appeals Unit (Appeals).

On July 2, 2024, Appeals sent Petitioner and her representative letters outlining the options available for redetermining a protested Notice. The representative did not request an informal hearing but provided additional information and documentation to support the protest position. Based on this new information, the Tax Commission renders its decision.

Law & Analysis

Idaho Net Operating Loss

Petitioner claimed a subtraction for an Idaho net operating loss (NOL) carryforward on her 2019 Idaho tax return. An Idaho NOL for a given year is the amount by which Idaho taxable income is less than zero after adding back specific items:

- Any standard or itemized deductions allowed, along with any personal exemptions amount, except for casualty losses on Idaho property included in itemized deductions

- Any Idaho NOL carryforward already included in Idaho taxable income
- Any net capital loss
- Any Idaho capital gains deduction

Idaho NOLs can be carried forward for up to 20 years until fully absorbed by other Idaho income. Petitioner incurred Idaho NOLs in tax years 2013, 2014, 2015, and 2017. These losses were fully absorbed by other income in 2016 and 2018. This means she had no Idaho NOL to carry forward to 2019. Therefore, the Tax Commission determined that Audit's adjustment in the Notice for Idaho NOL was accurate.

Schedule F Adjustment

Amended return

Petitioner's representative submitted his written protest of the Notice on November 13, 2023, with an unsigned amended Idaho return. The signed amended Idaho and federal returns were submitted on November 16, 2023. *Tax Commission Administration and Enforcement Rule 325.05*¹ details the only three instances in which an amended return will be accepted when a protest to a Notice is pending:

- The taxpayer demonstrates that the changes on the amended return are unrelated to issues examined in the audit.
- The changes are the result of federal audit adjustments.
- The amended return is submitted as part of the procedure for resolving the protest.

The amended federal return included additional expense on Schedule F for depreciation and an ordinary loss on the sale of business property that was not previously reported. According to Audit notes, the ordinary loss was related to the sale of a horse. The depreciation and other expenses for this horse were reported on Schedule F. The Tax Commission determined that the changes on Petitioner's amended return were related to issues examined in the audit.

¹ IDAPA 35.02.01.325.05

The Tax Commission also determined that the changes on Petitioner's amended return did not result from federal audit adjustments. There is no evidence that the IRS examined Petitioner's 2019 federal tax return.

Finally, based on the timing of the amended return relative to the protest, the Tax Commission determined that the return was not filed as part of the procedure to resolve the protest. Rather, it appears that the amended return was filed to establish the protest position.

Because none of the three scenarios described in *Tax Commission Administration and Enforcement Rule 325.05* were met, the Tax Commission determined that Audit was justified in not accepting Petitioner's amended 2019 Idaho income tax return. Therefore, any adjustments to Idaho taxable income are based on the original return filed in October 2020.

Purchases by [REDACTED] /Unknown Purchaser

One of the issues identified by Audit in disallowing expenses claimed on Petitioner's Schedule F was that purchases were made by [REDACTED] and not by Petitioner directly. During a conversation with Appeals, Petitioner's representative explained that she and [REDACTED] were long-time "companions" but were not married. This would prevent Petitioner from filing a joint return, which was one of Audit's suggested solutions.

On July 29, 2024, Petitioner's representative emailed Appeals a letter from Petitioner. In this letter, Petitioner described the nature of her relationship with [REDACTED]

They have been companions for 34 years but hold no joint financial accounts. [REDACTED] has signatory power on one credit card which he uses to pay for farming related expenses. Petitioner is responsible for paying that card. She is the sole owner of the farm in [REDACTED] her principal residence in [REDACTED] other investments and assets, and all financial accounts and cash. [REDACTED] helps with work that needs to be done on the farm and with tasks related to horse breeding, training, maintenance, and showing. Since [REDACTED] helped create the rehabilitation plan for the [REDACTED] farm and does much of the work there, he is the one who purchases necessary supplies and equipment, contacts vendors for seed, fertilizer, etc., and arranges for repair and service of the farm equipment. As the contact person, it is quite

natural that his name would appear on the invoices. However, all invoices were paid by Petitioner, and [REDACTED] has only ever acted as her agent.

Petitioner's representative provided receipts showing purchases made by credit card during 2019. Some receipts indicate that Petitioner was the purchaser, but most show [REDACTED] as the individual making the transaction. All legible receipts from 2019 but one show the same last four digits of the credit card number. These digits match the last four of the account number on the Chase Bank account held by Petitioner, as evidenced by the 2019 Chase credit card statements. [REDACTED] name is not on the statements. According to Chase Bank's website², "Authorized users will have the same account number and charging privileges as the primary cardholder but will not be financially responsible." Each statement shows payment of the previous month's balance in full.

Petitioner's representative also provided monthly statements from 2019 for Petitioner's Wells Fargo checking account. Once again, [REDACTED] name does not appear on the statement. The last four digits of the credit card number associated with this account match those on the outlier receipt mentioned in the paragraph above. Additionally, the checking account statements show payments made to "Chase Credit Crd Epay" in the amount that matches the Chase credit card statements.

The Wells Fargo checking account statements also show repeated use of bill pay for "horse training," "Great Basin Equine," and "Funk Farrier." The horse training payments match invoices from Tom Long Cutting Horses, LLC, in the name of [REDACTED] [REDACTED]. Likewise, the Great Basin Equine account statements provided by Petitioner's representative also show [REDACTED] name, as do invoices from Russell Funk Farrier Service.

Based on the documentation and testimony provided, the Tax Commission determined that Audit's denial of Schedule F expenses because the purchase was made by or billed to [REDACTED] [REDACTED]

² Retrieved 08/15/2024 from <https://www.chase.com/personal/credit-cards/add-authorized-user>.

and not Petitioner directly was not justified, and the documented expenses should be allowed. Similarly, for the few documented expenditures where the purchaser cannot be definitively ascertained, the Tax Commission determined that enough evidence exists to support the contention that Petitioner was the ultimate payor of the amount due, and the expense should be allowed.

Additional Information Needed

Most of the expenses that Audit denied for lacking sufficient information fell under the category of “show expenses.” The documentation provided consisted of photocopies of a check register. According to Audit notes, these expenses were not allowed because Audit “could look up the information and there could be multiple businesses with that acronym”. The two acronyms used in recording these checks in Petitioner’s register were PCCHA and ICHA. Appeals conducted research online and found that the businesses using these acronyms most relevant to Petitioner are Pacific Coast Cutting Horse Association and Idaho Cutting Horse Association. Additional research into PCCHA and ICHA events held during 2019 shows that [REDACTED] [REDACTED] entered multiple events during the year. The Tax Commission determined that it is reasonable for the money paid to those organizations to be for entry fees related to Petitioner’s Schedule F.

According to Schedule 2 included with the Notice and modified Notice, the expenditures documented by copies of the check register did not show a date or invoice. When requested by Appeals, Petitioner’s representative provided images of the checks recorded in the register in question, showing the same information recorded. Reviewing the Wells Fargo checking account statements for 2019 shows that each check cleared Petitioner’s bank during 2019. Regarding the absence of an invoice for each of these payments, the Tax Commission compared the payments to an invoice from PCCHA and found that the amounts paid likely represent a reasonable entry fee for cutting horse events. Other associated costs for these events were reported on Schedule F and

allowed by Audit. Therefore, the Tax Commission determined that the show expenses discussed above are allowed to be claimed on Schedule F.

The amount shown on one other receipt was denied for lack of information. By searching for the item number on the vendor's website, the Tax Commission was able to determine that the item purchased reasonably appears to be an ordinary and necessary piece of equipment on a farm. Therefore, the cost of the item is allowed.

Unclear Business Purpose

The bulk of the purchases Audit denied as business expenses because of unclear business purpose were transactions made in [REDACTED] Montana, and [REDACTED] Idaho, for diesel fuel. In an email dated August 15, 2024, Petitioner's representative explained that the fuel was purchased either to travel to maintain the [REDACTED] farm property or to travel to take horses to events. The Tax Commission determined that this was a reasonable explanation and that the purchases should be allowed as deductions on Schedule F.

Aside from the fuel transactions, three additional purchases were listed as denied because the business purpose was unclear. Two purchases were for fertilizer and weed control chemicals. The third was for the rental of a small excavator for a week. The note on the document indicates it was for the cleanup of a barbed wire fence. The Tax Commission determined that these were reasonable expenditures that should be allowed as deductions on Schedule F.

Overall adjustment to Schedule F

After reviewing the documentation provided to Audit and the additional documentation and information provided to Appeals, the Tax Commission determined that Petitioner should be allowed \$74,920 in deductible expenses on Schedule F for 2019, resulting in an increase to Idaho taxable income of \$990 instead of the \$23,995 increase contained in the Notice.

Penalties and Interest

Audit added a negligence penalty to Petitioner's tax deficiency stating that she "made exaggerated claims of deductions." The Tax Commission reviewed this addition and finds that, while Petitioner may have under-documented her business deductions, the issue does not rise to a level of negligence. Therefore, the Tax Commission removed the penalty from the Notice.

Audit also added interest to Petitioner's tax deficiency. The Tax Commission reviewed this addition and found it to be appropriate and in accordance with Idaho Code section 63-3045.

Conclusion

Petitioner included a deduction on her 2019 Idaho return for the carryover of Idaho NOL from previous years, but she had no remaining balance of Idaho NOL to carry forward after 2018. Petitioner claimed more business deductions on Schedule F than she was entitled to, based on documentation provided.

THEREFORE, the modified Notice dated December 19, 2023, and directed to [REDACTED] [REDACTED] is hereby further modified and MADE FINAL.

IT IS ORDERED that Petitioner pays the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$562	\$0	\$65	\$627

DEMAND for immediate payment of the foregoing amount is hereby made and given. Interest is calculated in accordance with Idaho Code section 63-3045.

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

DATED this _____ day of _____ 2025.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____, 2025,
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]

