

**BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of )  
 )  
 , ) DOCKET NO. 0-458-659-840  
 )  
 Petitioner. ) DECISION  
 )  
 \_\_\_\_\_ )

(Petitioners) protested the Notice of Deficiency Determination dated January 2, 2020. Petitioners disagreed with the adjustments the Income Tax Audit Bureau (Bureau) made to their 2016 and 2017 Idaho individual income tax returns. The Tax Commission reviewed the matter and for the reasons stated below modifies the Notice of Deficiency Determination.

**BACKGROUND**

The Bureau received information that a change was made to Petitioners’ 2014 federal income tax return. The Bureau reviewed that information and determined the same change needed to be made to Petitioners’ 2014 Idaho income tax return. In addition to changing Petitioners’ 2014 Idaho income tax return, the Bureau selected Petitioners’ 2016- and 2017-income tax returns to examine their claim of the energy efficiency upgrade deduction, selected itemized deductions, and their schedule C businesses. The Bureau requested documentation from Petitioners, which they provided. The Bureau reviewed Petitioners’ documentation, determined the allowable expenses and deductions, and sent Petitioners a Notice of Deficiency Determination.

Petitioners protested the Bureau’s determination stating they disagreed with the adjustments to the energy efficiency upgrade deduction, their mortgage interest deduction, their business expenses, and their vehicle trailer expenses. Petitioners stated they would provide more

documentation to substantiate their expenses and deductions. Petitioners asked for additional time to gather their documentation.

The Bureau allowed Petitioners additional time to present their documentation. Petitioners provided their documentation, and the Bureau modified its determination on two separate occasions. However, Petitioners still disagreed with the adjustments to their expenses and deductions. Therefore, the Bureau referred the matter to the Tax Commission's Appeals Unit (Appeals).

Appeals sent Petitioners a letter explaining the options available for redetermining a Notice of Deficiency Determination. Petitioners contacted Appeals and asked for a meeting to go over and explain their business and the expenses claimed. A meeting was scheduled and held where Petitioners explained how and why their business expenses were documented. Petitioners stated they believed the auditor did not understand their business and did not understand the kind of assets they used in their business. Petitioners showed a couple of examples where they purchased diesel fuel for their semitruck that the auditor only allowed part of the purchase. Appeals stated it would review Petitioners' expenses looking for expense items that should have been allowed. During the meeting the other issues in the audit were discussed namely, the energy efficiency upgrades, and the mortgage interest (points). Appeals stated it would review those adjustments as well.

Appeals reviewed Petitioners' documentation and allowed additional expenses for Petitioners' car and truck expenses, insurance expense, legal and professional expenses, rent or lease expense, and other expenses. Appeals also allowed additional mortgage interest as an itemized deduction. Appeals sent its changes to Petitioners and asked if they had anything further for the Tax Commission to consider; specifically, Appeals asked Petitioners for documentation of their energy efficiency upgrades. Petitioners replied that they could not find their energy efficiency

upgrade documents. Petitioners thought they were included with the package sent to the auditor, but they cannot find them now.

Seeing that Petitioners had nothing further to provide, the Tax Commission makes its decision on the matter.

### **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." 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 his 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).

In response to the Bureau's request for documentation, Petitioners provided various receipts and QuickBooks printouts. The Bureau reviewed the information and prepared a preliminary audit report showing numerous expenses and a few deductions disallowed. Petitioners did not agree with the report and asked for additional time to provide more documentation. Petitioners did not provide their additional documentation within the time allowed by the Bureau, so the Bureau finalized the preliminary audit report and sent Petitioners a Notice of Deficiency Determination. Petitioners protested and provided their additional documentation. The Bureau reviewed the documentation and asked Petitioners for more information on their lease payments and payments made for IT services. Petitioners provided the information wherein the Bureau modified the Notice of Deficiency Determination. Petitioners still disagreed with the Bureau's determination. Petitioners felt the auditor did not understand their business nor the assets used in the business.

After the matter was transferred to Appeals, Petitioners contacted Appeals and asked to meet with someone so that they could explain their business and their expenses. In that meeting, Petitioners explained that they purchased a Peterbilt truck and a 32-foot dump trailer. Petitioners stated when they purchased fuel (diesel) for the truck there was usually two back-to-back purchases because of the size of the fuel tank and the limit the pumps had for purchases. Petitioners stated the second purchase was not allowed by the auditor. These fuel purchases and repairs made to the Peterbilt, and the trailer were the primary concern of Petitioners. Upon review, Appeals could see that the fuel expenses were minutes apart from each other and at the same location. As for the repairs, they were clearly identified as being for the Peterbilt or the trailer. Therefore, the Tax Commission allowed the verified fuel expenses and the verified repairs not previously allowed.

Appeals found other expenses that were adequately substantiated that were not allowed. These expenses included insurance, contract services, IT services, legal and professional services, and lease expenses. Therefore, the Tax Commission allowed these expenses.

Petitioners also substantiated a larger portion of their mortgage interest than what was allowed. However, even after allowing the additional interest, Petitioners' itemized deductions for 2016 was less than the standard deduction allowed by the Bureau. Therefore, the Tax Commission upholds the adjustment made to Petitioners' 2016 itemized deductions.

As for the energy efficiency upgrades, Petitioners were unable to provide documentation to show that the upgrades they made qualified for the deduction. Therefore, the Tax Commission upholds the adjustment made disallowing the energy efficiency upgrades deduction.

### **CONCLUSION**

The Bureau adjusted Petitioners' 2014 income tax return to agree with the changes made to their federal income tax return. Petitioners did not contest this adjustment. The Bureau also adjusted Petitioners' 2016- and 2017-income tax returns because documentation was lacking or inadequate and because the Bureau determined some of the expenses claimed were either personal or had no business purpose. In addition, the Bureau disallowed some mortgage interest, and the energy efficiency upgrades deduction.

The Tax Commission reviewed the adjustments and the information Petitioners provided during the redetermination process. The Tax Commission determined that a substantial number of Petitioners' business expenses were adequately documented that were previously disallowed. Therefore, the Tax Commission modifies the Notice of Deficiency Determination to include those business expenses. However, the Tax Commission upholds the adjustments to Petitioners' 2016 itemized deductions and to the energy efficiency upgrades deduction for both 2016 and 2017.

The Bureau added the penalty of Idaho Code section 63-3069 to Petitioners' 2014 tax deficiency. The Tax Commission reviewed the addition of the penalty and found it applicable since Petitioners did not provide notification of the federal changes. The Bureau also added the negligence penalty of Idaho Code section 63-3046 to the deficiencies for 2016 and 2017. The Tax Commission reviewed those additions and found them inappropriate based on the submissions and information Petitioners provided. Therefore, the Tax Commission removes the penalty for tax years 2016 and 2017.

The Bureau added interest to Petitioners' tax. The Tax Commission reviewed that addition and found it appropriate. See Idaho Code section 63-3045. Interest is calculated to October 15, 2022.

THEREFORE, the Tax Commission AFFIRMS as MODIFIED the Notice of Deficiency Determination dated January 2, 2020, directed to .

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>
2014	\$ 509	\$25	\$137	\$ 671
2016	1,335	0	261	1,596
2017	919	0	149	1,068
			TOTAL DUE	<u>\$3,335</u>

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 \_\_\_\_\_ 2022.

IDAHO STATE TAX COMMISSION

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2022,  
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.

---

---