

In the Matter of the Protest of

Petitioners.

DECISION - 1
 [REDACTED]/[REDACTED]/0-497-607-680

On May 22, 2023, Audit sent Petitioners an email asking if they had any additional information to submit regarding the items listed in the April 21 letter. Petitioners replied on May 22, indicating that Audit should receive the information for 2020 that day.

On June 5, 2023, Audit received in the mail a package from the third party mentioned in the May 17 email. This package contained a copy of Audit's initial letter with notes regarding the items donated for the technological equipment donation deduction, a copy of the chiropractic clinic's "Profit & Loss Detail" report for 2020, monthly and annual income and expense reports for the rental property for 2020, and receipts and invoices to support the Schedule E expenses. There was also included a Power of Attorney form naming [REDACTED] EA (AIF [REDACTED] as Petitioners' representative / attorney-in-fact to the Tax Commission in individual income tax matters for tax year 2020.

On June 20, 2023, Audit sent Petitioners a letter requesting copies of invoices or statements for their 2020, 2021, and 2022 Schedule C expenses along with proof of payment for each expenditure. On July 12, 2023, Audit sent a letter requesting information and documentation for specific expenses recorded in Petitioners' accounting software for 2020, 2021, and 2022. Audit also requested mileage logs and an explanation of what portion of telephone and internet expenditures were personal, and which were related to the business. Sometime between July 27 and August 3, 2023, Audit spoke with AIF [REDACTED] who explained that Petitioners did not have additional documentation for the 2020 accounting software entries mentioned in the July 12 letter. Audit spoke with AIF [REDACTED] again around August 16 and September 18, 2023, providing updates on the examination process. On October 11, 2023, Audit issued the Notice making the following adjustments:

2020: allowed \$13,909 in business expense deductions on Schedule C (Petitioners claimed \$38,469); allowed \$846 in business expense deductions on Schedule E (Petitioners claimed \$3,375); disallowed in full an alternative energy device (AED) deduction of \$2,933; disallowed in full an energy efficiency upgrade (EEU) deduction of \$12,018; disallowed in full a technological equipment donation deduction of \$4,282,020; allowed an Idaho child tax credit of \$205

2021: allowed \$16,697 in business expense deductions on Schedule C (Petitioners claimed \$23,099); allowed \$0 in business expense deductions on Schedule E (Petitioners claimed \$13,319); disallowed in full an EEU deduction of \$6,500; disallowed in full a technological equipment donation deduction of \$275

2022: allowed \$14,931 in business expense deductions on Schedule C (Petitioners claimed \$21,085); allowed \$0 in business expense deductions on Schedule E (Petitioners claimed \$31,058 in expenses but reported a \$25,000 limited loss)

On December 12, 2023, a new representative (AIF [REDACTED] for 2020 individual income tax issues uploaded a protest letter, requesting a redetermination of the deficiency for 2020. He wrote, “We are willing to provide any additional documentation to substantiate the [Schedule C and E expenses, AED deduction, and EEU deduction] you will request.” He did not provide any new information with the protest letter.

On December 14, 2023, Audit mailed Petitioners and AIF [REDACTED] letters acknowledging the protest for tax year 2020 and requesting any additional information they wanted to submit by January 19, 2024. On December 19, 2023, Petitioners sent Audit an email to which was attached a copy of the Notice with handwritten notes providing additional information on various issues; a 2020 bill of sale for a boat; billing information for electricity and internet service; and monthly

billing information from Verizon wireless. Audit acknowledged receipt of those documents on December 19, 2023.

On January 9, 2024, Audit sent Petitioners an email with questions about the December 19 information. Specifically, Audit asked for an explanation of what the “company vehicle” was used for and to provide logs of business mileage versus personal use. Audit also asked for information showing that phone, internet, utilities, etc., were provided to the business, “such as a monthly statement from Verizon, for example, that is a bill to [REDACTED] [REDACTED]” On January 9, 2024, Petitioners responded stating, “The bmw was the company vehicle until we sold it and now the ford f250 is the company vehicle. The Porsche is our personal vehicle. We have had Verizon for over 20 years and to switch it to a business account would change our plan.”

On January 22, 2024, AIF [REDACTED] uploaded a file containing information about Petitioners’ Schedule C and Schedule E activities for 2020. Much of the information had already been provided, either on June 5 or December 19, 2023. New information included a printed “Transaction Detail by Account” report for [REDACTED] [REDACTED] showing January 22, 2020, through March 19, 2021; three printed pages of “Journal” for [REDACTED] [REDACTED] showing January 2020 through December 2023; monthly bank statements for [REDACTED] [REDACTED] [REDACTED] from January 2020 through December 2020; two previously unsubmitted receipts for Schedule E expenses; and information regarding insurance for Petitioners’ rental property.

On February 21, 2024, Audit spoke with AIF [REDACTED] and explained that the information provided after the Notice was issued could potentially generate additional tax due. Audit noted two options available: accept the assessment in the Notice and withdraw the protest; or continue the redetermination process with the Tax Commission’s Appeals unit (Appeals). On March 12, 2024, Audit prepared letters to be sent to Petitioners and AIF [REDACTED] stating that no changes were

being made to the determination in the Notice and again providing the options of withdrawing the protest by April 1, 2024, or continuing the redetermination process with Appeals. These letters would be mailed on March 13, 2024.

Also on March 13, 2024, after the close of business, Petitioners named a new representative (AIF [REDACTED] for all tax types and all years. Audit (both the auditor and the auditor's manager) spoke with AIF [REDACTED] on March 26, 2024. They discussed the examination, and the documentation provided. AIF [REDACTED] requested until April 30, 2024, to review the documentation. He also brought up the Verizon bills, stating that Mr. [REDACTED] would forward his calls to another line in the family plan when he was with patients, so the expenses claimed should be allowed in their entirety. Audit explained that the percentage of the cost of the business use of each line would be deductible. There are no further indications of any interaction between Audit and Petitioners or any of the AIFs after March 26, 2024. Audit forwarded the matter to Appeals in July 2024.

On July 19, 2024, Appeals sent letters to Petitioners and AIF [REDACTED] providing two options for continuing the redetermination process. On July 23, 2024, Petitioners rescinded the Powers of Attorney for AIFs [REDACTED] and [REDACTED]. Petitioners and AIF [REDACTED] elected to take part in an informal hearing on September 18, 2024. They confirmed that, although the protest letter specifically addressed tax year 2020, the protest was intended for all three years in the Notice. There was discussion of some specific expenses, but it was decided that AIF [REDACTED] and Appeals would work to obtain additional documentation of expenses. To that end, Appeals made available to AIF [REDACTED] on September 20, 2024, a list and copies of all the documentation that had been submitted to date, along with a list of concerns Appeals had with what was already sent and what else would need to be provided. AIF [REDACTED] sent Appeals an email stating that he was working

with Petitioners' QuickBooks file to be able to provide a new profit and loss statement that tracks the expense categories on Schedule C. He wrote that he expected to prepare amended returns for 2020, 2021, and 2022. Appeals received an email with photos of Petitioners' home office and chiropractic clinic on September 24, 2024.

On October 15, 2024, Appeals sent AIF [REDACTED] a follow-up email asking about the status of finding and providing the information requested in September. His reply indicated that he would be able to provide more information within the next week. On December 20, 2024, Appeals sent AIF [REDACTED] an email stating that nothing else had been received since the home office and clinic photos. On December 24, 2024, AIF [REDACTED] sent a reply showing property taxes paid for the rental property.

Having granted Petitioners and AIFs sufficient time to gather, organize, and present additional information and documentation to support their protest position, the Tax Commission hereby renders a decision on this matter based on what has been provided to date.

Law & Analysis

This case involves mainly deductions from income, whether business deductions claimed on the federal return or deductions specifically allowed by Idaho Code on the Idaho return. Deductions are a matter of legislative grace, and the taxpayer must prove that he is entitled to each deduction and the amount of the deduction.¹ Taxpayers must substantiate each claimed deduction by maintaining sufficient records to allow the correct determination of their tax liability.² If a taxpayer is unable to provide adequate proof of any fact upon which a deduction depends, no

¹ *INDOPCO, Inc. v. Commissioner*, 503 U.S. 79, 84 (1992); *New Colonial Ice Co. v. Helvering*, 292 U.S. 435, 440 (1934)

² *Higbee v. Commissioner*, 116 T.C. 438, 440 (2001)

deduction is allowed, and that taxpayer must bear his misfortune.³ A taxpayer's general statement that expenses were incurred in conducting their business is not sufficient to establish that the expenses had a reasonable direct relationship to the taxpayer's trade or business.⁴ Both Internal Revenue Code (IRC) section 6001 and Idaho Code section 63-3042 require taxpayers to maintain books, records, papers, and any other data that might be needed to verify the correctness of a tax return and to provide such items for examination upon request by an authorized party.⁵

Schedule C Business Expenses

IRC section 162(a) allows taxpayers to claim deductions for "all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any business or trade." To qualify as a deduction, an item must be not only an expense, but an ordinary and necessary one, and it must be incurred or paid during the tax year for which it is claimed, as well as being incurred or paid in the conduct of a trade or business. An ordinary expense is one that is customary or usual within a certain trade or business.⁶ A necessary expense is one that is appropriate and helpful in the development of the business.⁷

Many of Audit's adjustments for Schedule C business expenses were due to lack of documentation or other information being received before the Notice was issued. During the informal hearing with Appeals and Commissioner [REDACTED] four specific expense categories were discussed: advertising; rent; cell phone; and car and truck. It was decided that additional information and documentation would be requested so as not to "dwell on the minutiae" during

³ *Burnet v. Houston*, 283 U.S. 223, 51 S.Ct. 413 (1931)

⁴ *Ferrer v. Commissioner*, 50 T.C. 177, 185 (1968), aff'd per curiam, 409 F.2d 1359 (2nd Cir. 1969); *Near v. Commissioner*, T.C. Memo 2020-10

⁵ See also *Tax Commission Administration and Enforcement Rule 200* (IDAPA 35.02.01.200)

⁶ *Deputy v. Du Pont*, 308 U.S. 488, 495 (1940)

⁷ *Commissioner v. Heining*, 320 U.S. 467, 471 (1943)

the hearing. Appeals sent a request following the hearing, but limited additional information regarding Petitioners' Schedule C activity was provided, even after two follow-up requests. What was received is noted in the discussion below. In the absence of additional information, documentation, or clarification, the Tax Commission determined that the adjustments for other categories of expenses outside the four discussed during the hearing must stand as presented in the Notice. The Tax Commission's determinations for advertising, rent, cell phone, and car and truck expenses are presented below.

The "Profit & Loss Detail" reports that Petitioners provided to Audit prior to the Notice being issued show some entries with blanks in the column where vendors are listed. Documentation submitted to Audit after the Notice was issued shows names of individual people recorded in those places. During the informal hearing, AIF [REDACTED] explained that many of the advertising expenses Audit disallowed were discounts for services provided to existing patients who gave referrals to new patients. The Tax Commission determined that this explanation is reasonable. For 2020, 2021, and 2022 the amounts disallowed for this reason were \$375, \$80, and \$440, respectively. The Tax Commission determined that these amounts should be allowed as ordinary and necessary advertising expenses. Petitioners' accounting records also show an entry for \$8,000 that appears to be tied to the purchase of a boat. The Tax Commission was unable to perceive any ordinary and necessary business purpose for a boat in a chiropractic practice and therefore determined that no deduction is allowed.

The records from Petitioners' bookkeeping software showed monthly rent payments to "[REDACTED] [REDACTED] [REDACTED]" from January 2020 through December 2022. Based on these records, Audit allowed rent expense of \$9,375 for 2020; \$8,622 for 2021; and \$8,400 for 2022. Following their protest, Petitioners provided bank records for 2020 showing copies of 12 checks payable to "[REDACTED]"

■■■■ or something similar. Several checks contain a note on the memo line indicating “RS 3” or “#3.” Petitioners’ chiropractic clinic is located at ■■■■ Suite 3, in ■■■■ Idaho. During the informal hearing, Petitioners confirmed that these checks were written for rent of the chiropractic clinic space. Each of these checks was written for \$550, but the bookkeeping entries in Petitioners’ software show rent payments of \$700 or more each month. The bank records provided after the protest also indicate payments for the rental of “hangar space.” During the informal hearing, it was confirmed that Petitioners own an airplane and rent hangar space where they store the plane. However, Petitioners and AIF ■■■■ were unable to confirm during or after the hearing what portion of the airplane usage was for business. The Tax Commission determined that Petitioners are eligible to claim a deduction for monthly rent expense for payments associated with the clinic but are not eligible to claim a deduction for any other rental including hangar space. The total allowable deduction for rent each year is reduced to \$6,600.

The records from Petitioners’ bookkeeping software showed 22 entries for telephone expenses for 2020 (all labelled “Verizon” with a total of \$2,965.42), 17 entries for 2021 (labelled either “Verizon” or “cell phone” with a total of \$2,497.82), and 12 entries for 2022 (all labelled “cell phone” with a total of \$2,749.81). Audit disallowed all telephone expenses for lack of documentation. After their protest, Petitioners provided a single page from each Verizon wireless statement for November 2019 through December 2022. This page shows the total amount due for the month and confirms that the payment would be automatically deducted from their bank account. There appears to be no interruption in service, so it is reasonable to conclude that the bills were paid in full each month. One of these statements shows the breakdown of the bill between the “plan and account” charge (\$156.00) and the charges for each line. There were five lines listed on the bill: four with a charge of \$23.79; and the fifth with a charge of \$72.12. During the informal

hearing, AIF [REDACTED] explained that one line (one of those with a charge of \$23.79) was used strictly for the chiropractic clinic. In light of this, the Tax Commission determined that Petitioners should be allowed a reasonable amount for the business use of cell phones. If the plan and account charge is divided by the five lines on the plan, the result is \$31.20 per line. If the dedicated business line charge of \$23.79 is added to that, the total is \$54.99. Dividing that by the total due for the month gives a result of 17.01%. To allow for “spill-over” of business usage to other lines, the Tax Commission determined that 25% of each monthly total paid would be a generous estimate of business usage of the cell phones. Therefore, Petitioners are allowed deductions of \$921 for 2020, \$841 for 2021, and \$845 for 2022.

Petitioners claimed deductions for auto expenses on their 2020 and 2022 income tax returns (\$5,152 and \$2,966, respectively) but not on their 2021 return. The records from their bookkeeping software show entries for all three years under “automobile expenses,” mostly Conoco, Travel America, and [REDACTED] Mechanical. They also recorded “auto insurance” and “car ins” under “insurance expenses.” No other documentation was provided to substantiate the purchases recorded in the bookkeeping program. No mileage logs were provided. Audit denied all auto and truck expenses, including insurance, as “personal,” except for one purchase from [REDACTED] mechanical which was denied because there was no receipt and no proof of payment. In the response received after the protest, either Petitioners or an AIF made notes asking why the company vehicle expenses were not deductible and indicating that the auto insurance was for the company car. During the informal hearing, AIF [REDACTED] acknowledged that it appears Petitioners were claiming both actual costs and standard mileage, which is not allowable. He also stated that Mr. [REDACTED] has a home office, so the car and truck expenses are deductible because he travels back and forth between his two work locations (home and clinic). This would be true only if the home

office was his main work location; otherwise, the travel between locations is considered commuting, which is not deductible. Upon request, AIF [REDACTED] provided photographs of both the home office and the chiropractic clinic. The home office does have treatment equipment and a computer for recordkeeping. Appeals asked for additional information about how and how much each location is used for the business, but no response was received. Because it is unclear what vehicle was used in the business, how it was used, whether Petitioners claimed actual costs or standard mileage, and in fact whether vehicle expenses are deductible at all in this case, the Tax Commission determined that no deduction for car and truck expenses, including vehicle insurance, is allowed for any of the three years in question.

In Idaho, it is well established that a Tax Commission Notice is presumed to be correct, and the taxpayer bears the burden of showing the deficiency is erroneous. *See Parsons v. Idaho State Tax Commission*, 110 Idaho 572, 574-575 n.2 (Ct. App. 1986) (citing *Albertson's Inc. v. State, Dept. of Revenue*, 106 Idaho 810, 814 (1984)). The Tax Commission requires Petitioners to provide adequate evidence to establish that the amount asserted in the Notice is incorrect. Petitioners have failed to do so. Because Petitioners have not provided sufficient documentation to support any other expenses claimed on their 2020, 2021, and 2022 Schedule C, the Tax Commission determined that no other changes to Audit's determination are warranted.

Schedule E Rental Expenses

Prior to issuing the Notice, Audit received limited information about Petitioners' Schedule E rental property. For each year from 2020 through 2022, Petitioners sent monthly and annual income and expense summaries. For 2020, but not for 2021 or 2022, they also sent other supporting documentation including receipts, statements, and invoices for purchases and payments related to

the rental property. Based on these receipts, Audit allowed a total of \$846 in business deductions for 2020.

No additional information about the Schedule E rental activity was provided with the protest. During the informal hearing, AIF [REDACTED] mentioned property taxes for the rental. Following the hearing, Appeals indicated to AIF [REDACTED] that substantiation for expenses would be needed. No additional information was provided with AIF [REDACTED] September 24, 2024, response. Appeals sent reminders in October and December 2024. AIF [REDACTED] provided payment information from the [REDACTED] County Assessor's office showing payments for tax years 2020 through 2023, made in calendar years 2020 through 2024.

After a review of the same documents provided to Audit, the Tax Commission determined that there was sufficient documentation to allow some additional ordinary and necessary business expenses for 2020, specifically in the categories of repairs and supplies. The Tax Commission will allow additional deductions of \$1,785 for these items. Based on the information AIF [REDACTED] provided from [REDACTED] County, the Tax Commission determined that additional deductions should be allowed for property taxes paid in the following amounts: \$819 for 2020; \$1,888 for 2021; and \$1,069 for 2022. No deductions are allowed for any expenses claimed that were not supported by adequate documentation.

Idaho Deductions

Energy Efficiency Upgrades Deduction

Idaho Code section 63-3022B allows taxpayers to claim a deduction in calculating Idaho taxable income for amounts paid to install qualifying energy efficiency upgrade (EEU) measures in an existing residence. The "existing residence" must be in Idaho and serve as the taxpayer's primary residence. Construction of the home must have been completed, started, or subject to an

outstanding legal building permit on or before January 1, 2002. An EEU measure is an energy efficiency improvement to the building envelope or duct system that meets certain standards. EEU measures include adding insulation to increase the building resistance to heat transfer, replacing inefficient windows with new ones, adding storm windows or weather stripping, or duct sealing and insulation. Appliances that use less electricity are not qualifying EEU measures.

During the informal hearing, it was stated that Petitioners had installed EEU measures at their property located at [REDACTED] ID. This matches information Petitioners reported on their 2020 federal Form 5695, *Residential Energy Credits*, in Part II (Nonbusiness Energy Property Credit). On this form, Petitioners indicated that they installed insulation material and a furnace or water heater at the property in 2020 and windows in a prior year. Also, during the hearing, Petitioners stated they moved from the home at [REDACTED] – an “off-grid” cabin – to a new home during 2020 and began renting out the cabin. It was suggested that June 1, 2020, was a reasonable estimated date for their move. When they moved to their new home, the cabin ceased to be their primary residence and would no longer be an “existing residence” for purposes of Idaho Code section 63-3022B.

Petitioners did not provide requested documentation to show what EEU measures were installed, when and where they were installed, and what Petitioners paid for the measures and their installation – all material facts used in determining if Petitioners qualify for the EEU deduction and how much. Due to the lack of substantiating evidence, the Tax Commission determined that Petitioners are not eligible to claim the EEU deductions reported on their 2020 and 2021 Idaho returns.

Alternative Energy Device Deduction

Idaho Code section 63-3022C allows taxpayers to claim a deduction in calculating Idaho taxable income for amounts paid to install an alternative energy device (AED) to serve the taxpayer's place of residence in Idaho. This deduction does not require that the place of residence be the taxpayer's primary home. The deduction is spread out over four years. The taxpayer can claim 40% of the cost in the year the AED is installed and 20% of the cost in each of the next three years; the maximum allowable deduction in any of these years is \$5,000. An AED is a system, mechanism, or series of mechanisms that use solar radiation, wind, or geothermal resources mainly to provide heating, cooling, or electrical power (or any combination of those three) for the residence. It also includes a natural gas or propane heating unit or wood burning stove that meets certain standards and replaces a wood burning stove designed for home heating that does not meet Environmental Protection Agency requirements for certification, but only if the old stove is surrendered to the Department of Environmental Quality for destruction.

According to Petitioners' Idaho Form 39R, they claimed the AED deduction for solar panels and controls that were installed at [REDACTED] [REDACTED] [REDACTED] [REDACTED] in 2018 and batteries (used with the solar system) that were installed in 2019. When these AEDs were installed, the property was Petitioners' primary residence. When they moved and began renting the property, it no longer qualified as Petitioners' residence. Rather, it became business property. As such, it ceased to qualify for the deduction on June 1, 2020. Considering these facts, the Tax Commission determined that Petitioners are eligible to claim the AED deduction for the part of the year during which the property served as Petitioners' residence (January 1 through May 30, five months), or \$1,222 instead of the \$2,933 reported on Petitioners' 2020 Idaho return.

Technological Equipment Donation Deduction

Idaho Code section 63-3022J allows taxpayers (donors) to claim a deduction in the year they donate qualifying technological equipment to a public or nonprofit private elementary school, secondary school, college, or university, or to a public library or library district located in Idaho (donee). Qualifying items are limited to computers, computer software, scientific equipment or apparatus that will be used by the donee directly or indirectly in the donee's education program and which the donors donate no later than five years after the equipment's manufacture has been substantially completed.

Petitioners did not provide documentation of any qualifying donations during 2020 or 2021. Therefore, the Tax Commission determined that Petitioners are not entitled to claim a deduction for the donation of technological equipment as reported on their Idaho returns for these years.

Idaho Child Tax Credit

Idaho Code section 63-3029L allows taxpayers a nonrefundable credit up to \$205 per qualifying child. The allowable credit is limited to the taxpayer's tax liability remaining after applying other nonrefundable credits that were enacted prior to 2018.

For tax year 2020, a qualifying child is one who is under 17 years of age on December 31, 2020. Petitioners reported one qualifying child on their 2020 Idaho return. As filed, Petitioners' 2020 Idaho return showed negative Idaho taxable income and \$0 tax liability. Because they had no tax liability, they were not eligible to claim the Idaho Child Tax Credit. Due to the adjustments above, Petitioners have enough tax liability to warrant the full \$205 Idaho Child Tax Credit for 2020.

Interest and Penalty

The Bureau added interest and penalty to Petitioners' tax deficiency. The Tax Commission reviewed those additions and finds them to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

Conclusion

Audit adjusted Petitioners' 2020, 2021, and 2022 income tax returns based on documentation (or lack thereof) that was sent. Petitioners protested and provided additional information and testimony. The Tax Commission determined based on all the facts available that changes to Audit's determination of tax due were necessary.

THEREFORE, the Notice dated October 11, 2023, and directed to [REDACTED]

[REDACTED] is hereby MODIFIED 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>
2020	\$5,952	\$298	\$641	\$6,891
2021	2,757	138	238	3,133
2022	1,899	95	96	<u>2,090</u>
				<u>\$12,114</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 _____ 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]