

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 0-576-911-360
)	
Petitioners.)	DECISION
<hr style="width: 45%; margin-left: 0;"/>)	

(Petitioners) protested the Notice of Deficiency Determination dated October 5, 2021. Petitioners disagreed with the cost basis adjustment the Income Tax Audit Bureau (Bureau) made to a recreational vehicle used in their RV rental business. The Bureau subsequently modified the Notice of Deficiency Determination based on information Petitioners provided. The Tax Commission reviewed the matter and hereby upholds the modified Notice of Deficiency Determination.

BACKGROUND

The Bureau selected Petitioners’ 2018 and 2019 Idaho individual income tax returns to review Petitioners’ net operating loss carryforward and the investment tax credit claimed on a 2019 Keystone travel trailer. The Bureau asked Petitioners to provide a copy of the purchase invoice for the trailer. Petitioners did not respond. The Bureau requested registration information from the Idaho Department of Transportation (ITD) and found that the cost Petitioners used as their basis for depreciation and the Idaho investment tax credit was more than the reported cost to ITD. The Bureau corrected Petitioners’ basis and adjusted Petitioners’ 2019 return accordingly. The Bureau also determined the net operating loss carryforward Petitioners claimed in 2018 and 2019 was fully absorbed by 2011. Consequently, the Bureau disallowed Petitioners’ net operating loss carryforward.

The Bureau sent Petitioners a Notice of Deficiency Determination. Petitioners responded with a copy of the purchase invoice of the travel trailer and a printed summary of the costs they included

in the basis of the trailer. The Bureau considered Petitioners' response a protest since they disagreed with the Bureau's basis determination. The Bureau reviewed the documentation Petitioners provided and determined the cost basis for the trailer should be modified. The Bureau also determined some of the costs Petitioners included as basis were current year business expenses for the trailer. The Bureau added those expenses to Petitioners' RV Rental Schedule C.

The Bureau sent Petitioners a modified Notice of Deficiency Determination and asked Petitioners to withdraw their protest. Petitioners did not respond. Therefore, the Bureau referred the matter to the Tax Commission's Appeals Unit (Appeals) to begin the appeal process.

Appeals sent Petitioners a letter explaining the options available for redetermining a Notice of Deficiency Determination. Petitioners did not respond. Seeing that Petitioners had an opportunity to further argue their position but chose not to, the Tax Commission made its decision based on the information available.

LAW AND ANALYSIS

Idaho Code section 63-3021 defines an Idaho net operating loss as the amount by which Idaho taxable income, after making the specified modifications, is less than zero. Idaho Code section 63-3022(c) allows for the carryback and carryforward of net operating losses to years with taxable income. Petitioners claimed net operating loss carryforwards in both 2018 and 2019. The Bureau reviewed Petitioners' Idaho income tax returns and found their last net operating loss year was 2008. Petitioners carried that loss into 2009 and through 2011 where it was fully absorbed. Petitioners' tax years after 2011 all had positive Idaho taxable income. Therefore, Petitioners had no net operating losses to carry into 2018 and 2019. The Tax Commission upholds the adjustments to Petitioners' net operating loss deductions.

Idaho Code section 63-3029B provides a credit for certain qualified investments. Qualified

investments are defined in Internal Revenue Code sections 46(c), 46(f), and 48 of the Internal Revenue Code as they existed in the Internal Revenue Code of 1986 prior to November 5, 1990. Included in the definition is tangible personal property used in a trade or business, property used in manufacturing, and depreciable property. Petitioners' use of a travel trailer in their RV rental business is an example of depreciable, tangible personal property used in a trade or business.

Petitioners claimed the investment tax credit on the travel trailer. However, Petitioners included as part of the cost of the trailer such things as a service contract, license and registration fees, and a guaranteed asset protection fee. These costs are not directly related to the acquisition of the trailer and therefore, are not included as part of the cost of the trailer, or Petitioners' basis in the trailer. Nevertheless, these items could be ordinary and necessary expenses of an RV rental business and therefore, deductible as business expenses.

In its initial adjustments, the Bureau only included the cost of the trailer, as reported to ITD, in the determination of the trailer's basis for depreciation and the investment tax credit. However, upon receiving additional information from Petitioners, the Bureau corrected its basis computation to include the acquisitions costs of sales tax and dealer doc fees. The Bureau also allowed additional expenses on Petitioners' Schedule C for the other services and fees associated with the trailer.

After the Bureau's modification of the Notice of Deficiency Determination, Petitioners offered no other documentation or argument against the Bureau's adjustments. The Tax Commission reviewed the Bureau modified adjustments and found them appropriate and in accordance with the law.

CONCLUSION

The Bureau adjusted Petitioners' 2018 and 2019 income tax returns disallowing the net operating loss carryforwards and changing the basis of the travel trailer for purposes of

depreciation and the investment tax credit. The Bureau later modified the trailer’s basis based on information Petitioners provided. The Tax Commission reviewed the adjustments and the information Petitioners provided during the redetermination process. The Tax Commission found Petitioners did not have a net operating loss to carryforward and the Bureau’s basis computation for the travel trailer correct. The Tax Commission also found the addition of the additional business expenses appropriate. Therefore, the Tax Commission upholds the Notice of Deficiency Determination as modified by the Bureau.

The Bureau added the negligence penalty and interest to Petitioners’ tax. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3046 and 63-3045, respectively. Interest is calculated to May 31, 2023.

THEREFORE, the Tax Commission AFFIRMS as MODIFIED the Notice of Deficiency Determination dated October 5, 2021, 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>
2018	\$560	\$28	\$82	\$ 670
2019	426	21	39	<u>486</u>
			TOTAL DUE	<u>\$1,156</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 _____ 2023.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2023,
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.
