BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	)	
	)	DOCKET NO. 0-655-234-048
[redacted]	)	
	)	
Petitioners.	)	DECISION
	)	

The Income Tax Audit Bureau (Audit) at the Idaho State Tax Commission (Tax Commission) issued a Notice of Deficiency Determination (Notice) to [redacted] (Petitioners) for tax years 2021 through 2023. Petitioners disagreed with Audit's adjustments and protested the Notice. The Tax Commission has reviewed the matter and hereby issues its decision.

BACKGROUND

Petitioners were Idaho residents and timely filed their Idaho resident income tax returns for tax years 2021, 2022 and 2023. Petitioners' 2022 and 2023 returns included a Schedule C business, [redacted] which provided mechanical repair and landscaping services. Audit selected Petitioners' returns for review. Specifically, Audit requested documentation to support the Energy Efficiency Upgrades (EEU) claimed for 2021 and 2023 and the business expenses claimed on their Schedule C for 2022 and 2023.

Petitioners provided numerous documents such as vehicle expenses, online purchases, utility expenses, phones expenses, and the EEU purchases. Petitioners stated the advertised tax deduction of hot water heater and furnace led them to claim the EEU credit. Petitioners later acknowledged the advertisement must have been wrong. Petitioners did not include an objection to this adjustment in their protest letter and the disallowance of the EEU credit will not be mentioned further.

Audit reviewed the information Petitioners provided, yet they needed more information related to the business. Audit requested Petitioners complete a Business Analysis Questionnaire, which they did. After reviewing all information, Audit determined Petitioners' business was not engaged in for profit and sent them a Notice for tax years 2021, 2022 and 2023, disallowing the business losses, EEU deductions and adding the Idaho child tax credit.[1] Petitioners protested the Notice explaining that while they may have made a poor decision to incur substantial expenses prior to establishing and growing the business, their intent was to become profitable.

After reviewing the information in Petitioners' protest, Audit concluded the Schedule C activity was engaged in for profit and focused on whether the expenses claimed were allowable business expenses. Audit reviewed the documentation Petitioners previously submitted and issued a Modified Notice, allowing those expenses that were allowable and adequately substantiated. Petitioners maintained their objection to the modified Notice and the matter was forwarded to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners a letter explaining their options available for redetermining a Notice. Petitioners did not respond. Petitioners have had more than enough time to provide information they wanted the Tax Commission to consider. Therefore, the Tax Commission will decide this matter based on the information presently available.

LAW AND ANALYSIS

Deductions for Activities Engaged in For Profit Under IRC section 162.

A taxpayer is allowed a deduction for all ordinary and necessary expenses paid or incurred in carrying on a trade or business pursuant to IRC section 162(a). To qualify for a section 162

[1] Prior to the disallowed expenses Petitioners were unable to claim the Idaho child tax credit for their dependent due to Idaho tax limitations. After adjustments and increase in tax, this credit was allowed.

deduction, an item must be:

(a) paid or incurred during the taxable year,
(b) for carrying on any trade or business,
(c) an expense,
(d) a necessary expense, and
(e) an ordinary expense.

Ellis Banking Corp. v. Comm'r, 688 F.2d 1376, 1378 (11th Cir. 1982).

A trade or business expense is "ordinary" if it is normal or customary within a particular trade, business, or industry. *Hart v. Comm'r*, T.C. Memo. 2013-289, 2013 WL 6800281 at *2. An expense is "necessary" if it is appropriate and helpful for the development of the taxpayer's business. *Id*. An expense may only be deducted under section 162 if it is made primarily in a furtherance of a bona fide profit motive activity, independent of tax consequences. *Green v. Commissioner*, 507 F.3d 857, 871 (5th Cir. 2007). Expenses of a personal nature are not deductible under Section 162. *Marcello v. C.I.R.*, 380 F.2d 499, 504 (5th Cir. 1967).

Taxpayers are required to keep permanent books of accounts or records that are sufficient to allow the Tax Commission to determine the taxpayer's correct amount of income, credits, and deductions, and other matters reported on tax returns. I.R.C. § 6001; Treas. Reg.§ 1.6001-1(a). If a taxpayer fails to produce adequate records supporting information shown on a tax return, the deduction or credit is not allowed. *Burnet v. Houston*, 283 US. 223, 51 S.Ct. 413 (1931).

In this case, Audit evaluated all expenses shown on Petitioners' Schedule C and the requirements per IRC section 162(a).

For tax year 2022 Petitioners claimed $196,027 in expenses with the majority being car and truck expenses in the amount of $171,675. Petitioners provided no information or documentation to support the business use of their vehicles; therefore, no deduction is allowed.

For the remaining expenses, repairs, supplies, utilities and other, Petitioners did provide some documentation. The expenses shown to have a business purpose and those substantiated by Petitioners were allowed.

For tax year 2023 Petitioner claimed $123,377 in expenses with the majority being related to vehicle and mechanical expenses in the amount of $100,497.[2] The remaining expenses totaled $22,780.[3] The documented and substantiated expenses tied to the furtherance of Petitioners' business were allowed.

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). The particular statute in this case is IRC section 162, and Petitioners do not come within its terms for all claimed expense.

Therefore, the Modified Notice dated November 22, 2024, and directed to [redacted] is hereby AFFIRMED by this Decision. IT IS ORDERED that Petitioners pay the following tax and interest:

---

[2] Car and truck expenses: $26,200; 1999 GMC Truck: $10,000; Plow: $2,500; Dump Bed System: $2,500; Tools: $10,000; Parts: $20,000; Supplies: $29,297.
[3] Phone: $2,500; Other business property: $12,600; Travel: $1,000; Utilities: $2,400; Insurance: $4,080; Office Expense: $100.

YEAR	TAX	INTEREST	TOTAL
2021	$66	$7	$73
2022	5,429	396	5,825
2023	4,316	(4)	4,312
			$10,210
		Less: Held Refund	4,360
		TOTAL DUE	$5,850

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 __________________ 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:

[redacted]

Receipt No.

____

____