

expenses for tax years 2018 through 2020. Petitioners protested, stating the Tax Commission had improperly handled the audit and the amount of tax the state of Idaho had determined they owed was excessive and unrealistic. They also requested additional time to seek legal counsel to correct the issue. The Bureau acknowledged their protest and attempted to work with Petitioners to get the necessary documentation and information to resolve the case. Ultimately, the Bureau was unable to resolve the case in a timely manner. Petitioners stated they could not locate documentation for their Schedule C activities and requested numerous extensions. The Bureau eventually transferred the case to Appeals for redetermination.

Appeals sent Petitioners a letter explaining their right to an informal hearing and the appeals process. Petitioners responded, requesting additional time to provide amended returns to potentially resolve the issue. They did not request an informal hearing. Appeals granted numerous extensions during the process, during which Petitioners sought counsel from the Veteran's Affairs office to see what their options were. It was expressed that Petitioners wanted to compile amended returns based on the limited receipts and documentation available using the "Cohan Rule." After some time, Petitioners sent Appeals an email with attached documents in an attempt to resolve the case. The email contained Schedule Cs for 2018 through 2020 with attached lists naming the expenses on the return. The Schedule C figures did not change from their original returns and no substantiation for the expenses was provided. The Tax Commission has reviewed the documents and information provided and now issues its decision.

LAW AND ANALYSIS

The "Cohan Rule" mentioned previously was adopted and laid down in the United States in the case *Cohan v. Commissioner*, 39 F.2d 540 (2d Cir.1930). In summary, the rule provides that when taxpayers are unable to produce records of actual expenditures, they may rely on reasonable

estimates, provided there is some factual basis for it. The rule allows taxpayers to claim certain tax deductions based on such estimates. However, it is also well established that deductions are a matter of legislative grace, and taxpayers bear the burden of proving they are 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 their correct tax liability. See Internal Revenue Code section 6001; Treasury Regulation section 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). 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). Simple statements provided by Petitioners declaring they incurred expenses does not create sufficient evidence to apply the Cohan Rule.

It is also well settled that a Notice of Deficiency Determination issued by the Tax Commission is presumed to be accurate. *Parsons v. Idaho State Tax Commission*, 110 Idaho 572, 574-575 n.2, 716 P.2d 1344, 1346-1347 n.2 (Ct. App. 1986). The burden is on Petitioners to show the deficiency is erroneous. *Albertson's, Inc. v. State, Dept. of Revenue*, 106 Idaho 810, 814, 683 P.2d 846, 850 (1984). Petitioners have not shown with sufficient documentation or evidence that the Notice sent by the Bureau is in error.

CONCLUSION

The Bureau sent Petitioners a Notice adjusting their income and withholding, their medical and dental expenses, and disallowing Schedule C expenses related to woodworking and farm

activities. Through the process of numerous extensions, explanations of the audit put forth by the Bureau and Appeals staff, Petitioners have ultimately not shown with proper evidence the Notice is incorrect. The Tax Commission has reviewed the Notice and the adjustments therein and finds them to be a reasonable reflection of Petitioners' Idaho taxable income.

THEREFORE, the Notice dated November 2, 2021, and directed to
is hereby AFFIRMED and MADE FINAL.

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest computed to
May 15, 2023:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	3,507	175	506	4,188
2019	3,383	169	306	3,858
2020	5,277	121	322	5,720
			Less Held Refund	<u>(2,854)</u>
			TOTAL DUE	\$10,912

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.
