

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
)
 [REDACTED]) DOCKET NO. 1-196-827-648
)
)
 Petitioners.) DECISION
)
 _____)

The Intrastate Income Tax Audit Bureau (Bureau) sent [REDACTED] (Petitioners) a Notice of Deficiency Determination (Notice) for tax years 2019 through 2021. Petitioners protested, disagreeing with the denial of their business expenses. The Tax Commission has reviewed the case and hereby upholds the Notice issued by the Bureau.

BACKGROUND

The Bureau conducted an examination of Petitioners’ 2019 through 2021 income tax returns. Specifically, the Bureau requested documentation for expenses claimed on Petitioners’ Schedule C activity, “[REDACTED]”. Additionally, the Bureau requested documentation for credits for income taxes paid to other states, military pay earned outside of Idaho, and the Idaho capital gains deduction. Petitioners did not respond. The Bureau then issued Petitioners a Notice, disallowing the claimed business expenses and adjusting the other items based on the information available. Petitioners protested, indicating they wanted to provide documentation for the Schedule C expenses. They did not specifically protest any other item in the Notice. The Bureau provided additional time for Petitioners to provide information, but they did not provide the documentation in the agreed upon timeframe. The Bureau then acknowledged their protest and transferred the case to the Tax Commission’s Appeals Unit (Appeals).

Appeals contacted Petitioners and scheduled an informal hearing to discuss the case further. Petitioners had some questions regarding the audit, which appeared to be answered

sufficiently. Towards the end of the hearing, Petitioners stated they would be interested in providing additional documentation to substantiate their Schedule C expenses. Appeals and Petitioners then agreed upon a reasonable timeline to provide such documentation. Petitioners failed to provide any additional information during the redetermination process. Therefore, the Tax Commission must make its decision based on the information available.

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 out 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 their correct tax liability. See IRC 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). 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). Petitioners

did not properly document the expenses claimed on their 2019 through 2021 returns. Without said documentation, the Tax Commission cannot allow any of the expenses claimed.

The Bureau also adjusted the Idaho capital gains deduction, active-duty military pay earned outside of Idaho, taxes paid to another state, and the Idaho child tax credit on Petitioners' 2019 through 2021 returns. These items were discussed during the informal hearing and Petitioners did not wish to protest these items. Therefore, they will not be discussed in this decision.

CONCLUSION

Petitioners claimed expenses related to a Schedule C activity on their 2019 through 2021 returns. A Notice was sent to Petitioners disallowing the expenses claimed due to lack of supporting documentation. Sufficient time was given during both the audit and appeals process to provide the requested documentation. The Bureau's decision to disallow all expenses claimed on Petitioners' Schedule C and other discussed items was appropriate given the circumstances.

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

THEREFORE, the Tax Commission AFFIRMS the Notice of Deficiency Determination dated February 22, 2023, directed to [REDACTED]

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2019	\$4,671	\$234	\$641	\$5,546
2020	1,439	10	155	1,604
2021	2,470	124	215	<u>2,809</u>
			TOTAL DUE:	\$9,959

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 _____ 2024.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2024,
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.
