

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 1-336-493-056
)	
Petitioners.)	DECISION
<hr style="width: 45%; margin-left: 0;"/>)	

The Tax Discovery Bureau (Bureau) sent (Petitioners) a Notice of Deficiency Determination (Notice) for tax years 2016 through 2020. Petitioners protested, disagreeing with the estimates of income and expenses the Bureau prepared for them in the Notice. The Tax Commission has reviewed the matter and hereby modifies the Notice for the reasons stated below.

BACKGROUND

During a review of taxpayer information, the Bureau could not locate Petitioners’ Idaho individual income tax returns for tax years 2016 through 2020. The Bureau determined that Petitioners met the requirements to file Idaho tax returns for the years in question. The Bureau contacted Petitioners inquiring about the missing returns. Petitioners responded, stating they would provide returns for all years by April 30, 2022. Petitioners did not provide the returns by the agreed upon date, so the Bureau prepared the returns for them and issued a Notice.

In calculating Petitioners’ Idaho taxable income for the years in question, the Bureau included wages, interest, estimated business income from a sole-proprietorship, and estimated business income from an S-Corporation. The Bureau estimated both the sole-proprietorship and S-Corporation income by using returns from 2014 and 2015, averaging the income reported, and projecting a 5% growth factor for each year thereafter. The Bureau did not have information regarding expenses for either business, so no business expenses were allowed.

Petitioners filed a timely protest of the Notice, disagreeing specifically with the estimate of income and expenses. The Bureau acknowledged Petitioners' protest and made an additional request for their missing Idaho individual income tax returns. Petitioners eventually provided returns for tax years 2016, 2017, and 2018. The Bureau accepted these returns and sent them for processing. These returns better reflect Petitioners' Idaho taxable income than those prepared by the Bureau. The Tax Commission cancels the Notice for these years and they will not be discussed in this decision. The Bureau then gave Petitioners sixty additional days to provide returns for years 2019 and 2020. Petitioners did not provide the returns in a timely manner, so the Bureau transferred the case to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners a letter outlining their options for redetermining a protested Notice. Petitioners did not request an informal hearing, but indicated the rest of the returns would be sent in soon. After multiple follow-ups with Petitioners, they have yet to provide returns for 2019 and 2020. Petitioners have had more than adequate time to submit their returns but have not done so. Therefore, the Tax Commission decided this matter based on the information currently available.

LAW AND ANALYSIS

Idaho Code section 63-3030(a)(1) requires each individual who is a resident of Idaho to file an Idaho income tax return if required to file a federal return. Internal Revenue Code section 6012 states that the requirement to file a federal return is based on gross income.

The information gathered by the Bureau and used to calculate Petitioners' Idaho taxable income clearly shows that Petitioners received gross income above the threshold amounts for filing returns. Petitioners did not express disagreement with the Bureau's conclusion that they were

required to file Idaho returns for the years in question, but rather argued that the estimated income and expenses were incorrect.

The Tax Commission realizes that Petitioners may have had more business expenses than those shown on the Notice. However, deductions are a matter of legislative grace, and the taxpayer bears the burden of showing that each deduction is allowable by statute. *New Colonial Ice Co. v. Helvering*, 292 US. 435, 54 S.Ct. 788 (1934); *Higgins v. C.I.R.*, T.C. Memo. 1984-330, (1984). The burden rests upon the taxpayer to disclose its receipts and claim its proper deductions. *United States v. Ballard*, 535 F.2d 400 (1976). If a taxpayer is unable to provide adequate proof of any material fact upon which a deduction depends, no deduction is allowed, and the taxpayer must bear its misfortune. *Burnet v. Houston*, 283 US. 223, 51 S.Ct. 413 (1931).

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. They have not filed actual returns or provided any substantive argument or documentation to show the individual income tax returns prepared by the Bureau for tax years 2019 and 2020 are incorrect. Therefore, the Tax Commission finds the returns prepared by the Bureau are a reasonable representation of Petitioners' Idaho taxable income and related tax due.

CONCLUSION

Based on the available information, Petitioners received income exceeding the gross income threshold for filing Idaho income tax returns for tax years 2019 and 2020. After multiple requests and

extensions of time, Petitioners have yet to file these returns. Petitioners have not provided any evidence or compelling argument that the returns prepared by the Bureau are incorrect. The Tax Commission finds the returns prepared by the Bureau to be a reasonable representation of Petitioners' Idaho taxable income and related tax due for the years in question.

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.

THEREFORE, the Notice of Deficiency Determination dated July 22, 2022, is hereby APPROVED as MODIFIED by this decision 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>
2019	12,497	3,124	1,674	17,295
2020	13,453		1,408	<u>18,224</u>
			TOTAL DUE	\$35,519

Interest is calculated through March 14, 2024.

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.
