BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of [redacted] Petitioners.	))))))	DOCKET NO. 1-338-004-480 DECISION

The Intrastate Income Tax Audit Bureau (Bureau) sent [redacted] (Petitioners) a Notice of Deficiency Determination (Notice) for tax years 2020 through 2022. Petitioners protested, disagreeing with the adjustments made to their business deductions. Petitioners provided additional information, and the Bureau sent a modified Notice, reducing the tax due from $17,014 to $16,717. Petitioners requested to continue their protest. The Tax Commission has reviewed the matter and hereby further modifies the Notice.

BACKGROUND

Petitioners operate a sole-proprietorship, [redacted] where they perform custom siding and home construction projects. The Bureau conducted a review of Petitioners' business expenses, requesting documentation for most items claimed on their returns. For those items, the Bureau requested receipts, invoices, mileage logs, and accounting records. Petitioners responded and provided accounting records. The Bureau reviewed the accounting records and requested more detailed information. Petitioners did not respond. The Bureau used the information provided and sent Petitioners a Notice. Petitioners protested, providing some documentation for the items marked as disallowed in the Notice. The Bureau reviewed the documentation provided and sent them a modified Notice. Petitioners did not believe the modified Notice reflected the documentation they provided, so they requested the case be transferred. The Bureau acknowledged their protest and transferred the case to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Petitioners and Appeals participated in an informal hearing to further discuss the case. Petitioners explained the business use of their vehicles and of the Polaris the Bureau disallowed. Petitioners also agreed to provide additional documentation for some items that were missing. Petitioners eventually provided additional documentation for consideration. The Tax Commission has reviewed all the information available and further modifies the Notice for the following reasons.

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 mainly protested the disallowance of three items: Car and Truck Expenses, Polaris depreciation, and equipment rentals. The next section will discuss these matters separately:

Car and Truck Expenses:

Petitioners used four vehicles in the years in question. A 2013 Jeep Wrangler, 2008 Jeep Wrangler, 2017 Ford Super Duty Truck, and a 2018 BMW X6. During the audit and appeals process, Petitioners provided physical documentation and oral testimony for how these vehicles were used in their business. The Bureau did not allow any car and truck expenses because they believed Petitioners' documentation was lacking. In review of all information available, the Tax Commission finds Petitioners properly substantiated a portion of their car and truck expenses.

Petitioners provided mileage logs, oral testimony during the informal hearing, and copies of repair receipts, insurance invoices, fuel receipts, and DMV registrations. Petitioners claimed actual expenses for these vehicles, which require strict substantiation.

The Tax Commission went over the receipts provided and unfortunately many of the expenses could not be traced to a particular vehicle. With all the information together, however, the Tax Commission finds Petitioners have provided enough documentation to allow the standard mileage rate for the vehicles. While the amount allowed in the standard mileage rate is lower than the actual expenses plus depreciation, it is considerably higher than what Petitioners were able to show with the documentation provided.

Polaris:

Petitioners claimed a deduction for a Polaris off-road vehicle on their 2022 return. The Bureau disallowed this deduction due to lack of business purpose documentation. During the informal hearing, Petitioners clearly explained the business use of the Polaris and provided purchase receipts. Petitioners used the Polaris to plow and remove snow for jobsites. The Tax Commission has reviewed the oral and physical documentation for the business usage of the Polaris and finds it is sufficient for appropriate deductions. There is no corresponding evidence that Petitioners used the Polaris for personal purposes.

Rent of Other Equipment:

Petitioners claimed a $10,000 deduction for renting a lift while collaborating with [redacted] The Bureau disallowed the deduction due to lack of documentation. During the hearing, Petitioners explained that their company agreed to purchase the lift if in turn [redacted] agreed to reimburse. When Petitioners invoiced [redacted] for the lift plus installation of siding and trim, they were only paid $5,000 of the $15,000 invoice. Petitioners provided a copy of the invoice plus the corresponding check number from [redacted] The Tax Commission reviewed all oral and physical documentation for this deduction and finds it to be reasonable and allowable on Petitioners' 2022 return.

Summary:

While these adjustments lower the additional tax shown on the modified Notice, there were many items that still were not substantiated. The adjustments in this decision reduce Petitioners' Idaho taxable income by $36,228 for 2021 and $84,046 for 2022.

CONCLUSION

The Bureau sent Petitioners a modified Notice for tax years 2020 through 2022 disallowing many items related to their business expenses. Petitioners provided oral and physical documentation to substantiate some of their expenses.

THEREFORE, the Modified Notice of Deficiency Determination directed to [redacted] is hereby FURTHER MODIFIED.

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest:

YEAR	TAX	PENALTY	INTEREST	TOTAL
2020	$0	$0	$0	$0
2021	3,384	169	375	3,928
2022	4,108	196	267	4,571
			TOTAL:	$8,499

The Tax Commission DEMANDS immediate payment of this amount. Interest is calculated in accordance with Idaho Code section 63-3045.

An explanation of Petitioners' right to appeal this decision is enclosed.

DATED this ________ day of ____________________ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this ________ day of ______________________________ 2026, 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.

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