

In the Matter of the Protest of

Petitioner.

DECISION

correspondence with the IRS regarding the redetermination along with regular updates. Audit requested the first update by August 30.

After two reminders of missed deadlines (August 30 and October 1) with no updates, Audit issued the Notice on October 9. The Notice contained the same adjustments as the Billing Letter and provided a period of 63 days to submit a written request for redetermination (protest). On December 10, Petitioner sent Audit an email protesting the Notice, stating that he had refiled his federal return with the IRS through his AIF. To this email, Petitioner attached a letter he had received from the IRS dated September 16, 2024. This letter referenced correspondence that was sent to the IRS on July 25 and stated that the IRS would contact Petitioner again within 90 days to explain what action they would take.

On December 26, Audit sent AIF and Petitioner letters acknowledging the protest. Audit stated that the protest would be held while the IRS redetermination was taking place, requested “a copy of all documentation provided to the IRS regarding this action by January 23, 2025,” and restated the need for regular progress updates to continue holding the protest. At some point before January 14, 2025, Audit received new documentation which included a letter dated July 16, 2024, which AIF sent to the IRS. The letter reads, in part:

While [Petitioner] understands and accepts the findings regarding the filing status and exemptions, he is requesting reconsideration for the business expenses related to additional income from Uber. Specifically, the IRS did not allow any of the business expenses, likely because they were not provided during the audit, or the wrong year was.

Enclosed, you will find the Uber expenses and income worksheet, along with the 1099-K form. These documents detail the business expenses, including mileage and Uber fees, which are standard and necessary for operating as an Uber driver. It would be unjust not to allow these regular business expenses.

AIF also sent an unsigned revised 2021 federal tax return “not to replace the original, but to illustrate the actual income and expenses as a single filer.”

On January 14, 2025, Audit sent an email acknowledging the new information and requested another update by February 11. No further response was received, so Audit forwarded Petitioner's file to the Tax Commission's Appeals unit (Appeals). On April 22, Appeals sent letters to Petitioner and AIF outlining the options available for redetermining a protested Notice. Appeals spoke with Petitioner on the telephone on May 13 and discussed the federal audit. Petitioner mentioned the option of an informal hearing but did not request one. He sent Appeals an email containing an image of a letter he had received from the IRS acknowledging correspondence dated March 19, 2025. Upon request, AIF emailed Appeals a copy of that correspondence on May 21.

Appeals was unable to find any information indicating that the IRS had reversed or changed the results of its audit on Petitioner's 2021 federal tax return. The Tax Commission makes its determination based on the information currently available.

Law & Analysis

Idaho Code section 63-3002 states that Idaho taxable income is to be identical to federal taxable income, except for modifications required or allowed by Idaho law. The IRS changed Petitioner's federal taxable income by disallowing his claim to two dependent children, increasing gross receipts shown on Schedule C, and disallowing business expenses claimed on Schedule C.

Generally, the Tax Commission follows a final federal determination whenever a change is made to a taxpayer's federal income tax return. However, in the recent past, following the COVID pandemic, the Tax Commission has found it more expeditious to make its own determination on certain contested federal audits. This is one of those cases.

Dependents

In its audit of Petitioner's federal return, the IRS disallowed Petitioner's claim of two children as dependents, along with related tax credits. The Tax Commission has not received any

information as to why those dependents were denied, but AIF's letters to the IRS dated July 16, 2024, and March 19, 2025, indicate that Petitioner has accepted that determination. The March 19 letter specifically states that Petitioner never intended to dispute the dependent claim.

The Tax Commission will follow suit and disallow the two dependents Petitioner claimed on his Idaho return. This necessitates the denial of \$200 in grocery credit Petitioner claimed.

Filing status

In its audit of Petitioner's federal return, the IRS disallowed Petitioner's claim of the Head of Household filing status, allowing the Single filing status instead. AIF's letters to the IRS dated July 16, 2024, and March 19, 2025, indicate that Petitioner has accepted that determination. The March 19 letter specifically states that Petitioner never intended to dispute the filing status. The Tax Commission will follow suit and allow the Single filing status along with the corresponding reduction in the standard deduction amount.

Business income

As is relevant to Petitioner's Schedule C activity, Internal Revenue Code (IRC) section 1402 defines self-employment income as gross income derived from an individual's trade or business minus allowable deductions for expenses attributable to the trade or business. IRC section 162 allows taxpayers to claim a deduction for ordinary and necessary expenses paid or incurred in carrying on a trade or business. A trade or business expense is "ordinary" if it is normal or customary within a particular trade, business, or industry, and "necessary" if it is appropriate and helpful for the development of the taxpayer's business¹. Expenses of a personal nature are not deductible under IRC section 162.²

¹ *Hart v. Comm'r, T.C. Memo. 2013-289, citing Deputy v. du Pont, 308 U.S. 488, 495 [23 AFTR 808] (1940).*

² *Marcello v. C.I.R., 380 F.2d 499, 504 (5th Cir. 1967)*

In his July 16, 2024, and March 19, 2025, letters to the IRS, AIF stated he was requesting reconsideration of the IRS adjustments to Petitioner’s federal return only for this issue. In support of this request, AIF included documents from Uber showing \$20,274 in card payment transactions and \$5,863 in nonemployee compensation, and a document from Amazon showing \$1,792 in nonemployee compensation. On his federal Schedule C, Petitioner had reported \$7,655 in gross receipts – which matches the total of nonemployee compensation from Uber and Amazon – and claimed no deductions for business expenses. In the federal audit, the IRS increased Petitioner’s Schedule C income by \$20,274 – the total received in card payment transactions while working for Uber.

AIF also included “Tax Summary” information from Uber showing \$6,600 in Uber service fees, \$218 in insurance, \$4 in other miscellaneous charges, and \$2,251 in food expense cost. The Tax Commission determined that these are all deductible on Petitioner’s Schedule C as ordinary and necessary business expenses.

The Uber “Tax Summary” records also show 9,399 “online miles.” According to Uber’s website, these are the miles recorded while logged in and working and may include miles driven from one location to another, miles driven to pick up a passenger, and the miles driven to transport a passenger to their requested destination. Amongst the other documents, AIF included a written statement showing “Amazon miles – 1,163.” Using the standard business mileage rate for 2021 (56 cents per mile), the Tax Commission determined that Petitioner is eligible to claim a deduction of \$5,915 for car and truck expenses.

Using Petitioner’s gross receipts of \$27,929 and total expenses of \$14,988, the Tax Commission calculated Petitioner’s net income on Schedule C at \$12,941. The Tax Commission then calculated Petitioner’s self-employment tax at \$1,829 and related deduction for one-half of

self-employment tax at \$915. Subtracting this from Petitioner's net Schedule C income results in an adjusted gross income (AGI) of \$12,026. The 2021 standard deduction amount for a Single filer was \$12,550. Since this is greater than his AGI, the Tax Commission determined that Petitioner had no taxable income and therefore no tax liability for 2021.

Permanent Building Fund Tax

Because Petitioner's gross income (which includes gross receipts from self-employment activities before taking deductible expenses into consideration) was greater than the standard deduction amount, Petitioner was required to file federal and Idaho returns for 2021. Idaho Code section 63-3082 states that every individual required to file returns must pay the \$10 permanent building fund tax.

Penalty and Interest

The Bureau added interest and penalty to Petitioner's 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.

Conclusion

The IRS audited Petitioner's 2021 federal return, adjusting his filing status and Schedule C income and denying dependents he claimed. Petitioner accepted the changes regarding filing status and dependents but showed that he had requested reconsideration of the adjustments to his income. The Tax Commission allowed deductions for documented business expenses.

THEREFORE, the Notice dated October 9, 2024, and directed to [REDACTED] is hereby MODIFIED and MADE FINAL.

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$210	\$11	\$23	\$244

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

An explanation of Petitioner's 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:

Receipt No.

[REDACTED]

[REDACTED]