

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

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██████████

Petitioners.

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) DOCKET NO. 1-507-972-096
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DECISION
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██████████ ██████████ ██████████ ██████████ (Petitioners) protested the Notice of Deficiency Determination (Notice) dated July 18, 2025. Petitioners disagreed with the disallowance of the deductions they claimed for an Alternative Energy Device (AED) and Energy Efficiency Upgrades (EEU). The Tax Commission reviewed the matter and hereby upholds the modified Notice for the reasons stated below.

BACKGROUND

Petitioners filed their 2022 Idaho resident individual income tax return (return) claiming a \$5,000 AED deduction and a \$48,000 EEU deduction. The Income Tax Audit Bureau (Bureau) selected the return for review. The Bureau sent Petitioners an initial letter requesting information regarding the AED and EEU deductions they claimed for 2022. Petitioners did not respond to the Bureau's initial letter or a subsequent final request for information. Therefore, the Bureau removed the deductions from Petitioners' 2022 return and sent them a Notice proposing an additional tax due.

Petitioners responded and provided documentation to substantiate their claimed AED and EEU deductions. Petitioners later provided a formal protest.

Petitioners provided the following to support their EEU and AED expenses:

- Wells Fargo bank statement showing payment for installation of insulation

- Invoice for installation of mini-split heating and cooling system¹
- Capital One statement with [REDACTED] charge
- Payment schedule for installation of new windows.

The Bureau reviewed the information Petitioners provided and issued a modified Notice.

The Bureau heard nothing more from Petitioners and sent the file to the Tax Commission's Appeals (Appeals) unit for administrative review.

Appeals reviewed the matter and sent Petitioners a letter that discussed the methods available for redetermining a Notice. Petitioners did not respond. Appeals called Petitioners and left a voice message requesting a call back. Petitioners again did not respond. Seeing that Petitioners had an opportunity to provide whatever other information/documentation they wanted the Tax Commission to consider, the Tax Commission now issues its decision based on the information available.

LAW AND ANALYSIS

Idaho Code section 63-3022B defines the EEU deduction:

63-3022B. DEDUCTION FOR ENERGY EFFICIENCY UPGRADES.

(1) An individual taxpayer may deduct from taxable income an amount actually paid or accrued by the individual taxpayer during the taxable year for the actual installation of energy efficiency upgrade measures within any existing residence. As used in this section, "existing residence" means any residence in the state of Idaho that serves as the primary place of residence of the individual taxpayer in being, under construction, or subject to an outstanding legal building permit on or before January 1, 2002.

(2) As used in this section:

(a) "Energy efficiency upgrade measure" means an energy efficiency improvement to the building envelope or duct system that meets or exceeds the minimum value for the improved component established by the version of the international energy conservation code (IECC) in effect in Idaho during the taxable year in which the improvement is made or accrued.

(b) "Energy efficiency upgrade measure" includes:

¹ Mini-split heating and cooling system: An energy-efficient, ductless heating and cooling system that provides zoned temperature control to individual rooms. They consist of an outdoor compressor and one or more indoor air-handling units, connected by a small conduit. These systems are ideal for retrofitting, room additions, and eliminating energy losses from traditional ductwork.

- (i) Insulation that shall be added to existing insulation not in replacement of existing insulation;
- (ii) Windows that may replace less efficient existing windows;
- (iii) Storm windows;
- (iv) Weather stripping and caulking; and
- (v) Duct sealing and insulation. Duct sealing requires mechanical fastening of joints and mastic sealant.

63-3022C. DEDUCTION FOR ALTERNATIVE ENERGY DEVICE AT RESIDENCE.

(1) An individual taxpayer who installs an alternative energy device to serve a place of residence of the individual taxpayer in the state of Idaho may deduct from taxable income the following amounts actually paid or accrued by the individual taxpayer: forty percent (40%) of the amount that is properly attributable to the construction, reconstruction, remodeling, installation or acquisition of the alternative energy device in the year when such device is completed or acquired and is placed in service by the taxpayer; and twenty percent (20%) per year thereafter for a period of three (3) succeeding years; provided, however, that said deduction shall not exceed five thousand dollars (\$5,000) in any one (1) taxable year.

(2) An individual taxpayer who purchases a residence in the state of Idaho served by an alternative energy device for which none or less than all of the total deduction allowable under this section has been taken, may take the deduction specified in this section, or the unused balance of the deduction.

(3) As used in this section, "alternative energy device" means any system or mechanism or series of mechanisms using solar radiation, wind or geothermal resource as defined in section 42-4002, Idaho Code, primarily to provide heating, to provide cooling, to produce electrical power, or any combination thereof. Alternative energy device includes a fluid to air heat pump operating on a fluid reservoir heated by solar radiation or geothermal resource. Alternative energy device shall also include either a natural gas heating unit, or a propane heating unit, or a wood burning stove which meets the most current environmental protection agency certification, or a pellet stove which meets the most current industry and state standards, and which natural gas heating unit, or propane heating unit, or wood burning stove which meets the most current environmental protection agency certification, or pellet stove which meets the most current industry and state standards is used to replace during the same tax year a wood burning stove designed for residential heating and that does not meet environmental protection agency requirements for certification, provided the wood burning stove is surrendered to the department of environmental quality or its agent for destruction in accordance with applicable federal and state rules.

The \$5,000 AED deduction Petitioners claimed on their 2022 return was for new windows at a cost of \$26,938. Petitioners adequately documented the cost of the windows. However, new windows that replace less efficient existing windows do not qualify as an AED, rather they are an

EEU. Petitioners are not entitled to the \$5,000 AED deduction claimed on their return, but they are entitled to an EEU deduction of \$26,938.

Petitioners' EEU deduction of \$48,000 consisted of purchases for insulation, and a mini split heating and cooling system. Petitioners' mini-split system does not qualify as an EEU expense under Idaho Code section 63-3022B because it does not improve the building envelope or duct system that meets or exceeds the minimum value established by the IECC. Additionally, it doesn't qualify as one of the five energy efficiency upgrade measures per 63-3002B(2)(b) and is therefore disallowed. Insulation is an allowable EEU deduction, however, Petitioners did not provide adequate documentation to show the insulation was in addition to, and not in replacement of their existing insulation. Accordingly, the claimed insulation expense is also disallowed, leaving Petitioners with only an EEU deduction for the windows.

CONCLUSION

Petitioners claimed the AED deduction and EEU deduction on their 2022 return. The Bureau disallowed the AED deduction and allowed the substantiated portion of the EEU deduction. The Tax Commission reviewed the Bureau's adjustments and found them appropriate based on the documentation and information available. Therefore, the Tax Commission upholds the Bureau's modified Notice.

The Bureau added interest to Petitioners' tax liability. The Tax Commission reviewed the addition and found it appropriate and in accordance with Idaho Code section 63-3045.

Therefore, the modified Notice dated October 28, 2025, and directed to [REDACTED] [REDACTED] [REDACTED]

[REDACTED] [REDACTED] is APPROVED and MADE FINAL.

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

<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
\$1,017	\$135	\$1,152

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:

Receipt No.



