



consultant that works as both a W-2 employee and a 1099 contractor. The expenses on his Schedule C included travel that was not reimbursed, office expenses such as laptops, monitors, business attire, and books for certain jobs. The Bureau reviewed the information provided and did not believe it was sufficient to change the Notice. The Bureau then acknowledged their protest and transferred the case to the Tax Commission's Appeals Unit (Appeals).

Petitioners scheduled an informal hearing with Appeals to discuss their case. During the hearing, Petitioners verified the expenses claimed on [REDACTED] Schedule C were not in pursuit of business income, but rather claimed expenses related to her graduate school and unreimbursed employee expenses. Petitioners indicated they wanted to provide additional documentation for the IT consulting business. Appeals agreed to give them additional time to provide documentation. After multiple extensions, Petitioners failed to provide any additional information for consideration in the agreed time frame. Therefore, the Tax Commission must make its decision with 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 have not provided sufficient evidence for the expenses claimed on their returns regarding the IT consulting business. Therefore, no expenses are allowed, and the adjustments made by the Bureau are upheld.

Treasury Regulation 1.162-5(2) covers nondeductible education expenses:

(i) The first category of nondeductible educational expenses within the scope of subparagraph (1) of this paragraph are expenditures made by an individual for education which is required of him in order to meet the minimum educational requirements for qualification in his employment or other trade or business. The minimum education necessary to qualify for a position or other trade or business must be determined from a consideration of such factors as the requirements of the employer, the applicable law and regulations, and the standards of the profession, trade, or business involved. The fact that an individual is already performing service in an employment status does not establish that he has met the minimum educational requirements for qualification in that employment. Once an individual has met the minimum educational requirements for qualification in his employment or other trade or business (as in effect when he enters the employment or trade or business), he shall be treated as continuing to meet those requirements even though they are changed.

██████████ engaged in the job at the ██████████ ██████████ ██████████ exclusively for the purpose of completing educational credit hours towards her graduate degree. Under the current rules and statutes, these expenses are not deductible. Furthermore, some of the expenses claimed on ██████████ Schedule C were related to unreimbursed employee expenses for her W-2 employment.

Section 11045 of the Tax Cuts and Jobs Act suspended itemized miscellaneous deductions from 2018 through 2025, which includes unreimbursed employee business expenses. Therefore, all expenses on [REDACTED] Schedule C are disallowed and the Bureau's adjustments are upheld.

### CONCLUSION

Petitioners claimed expenses on two Schedule C's, one for IT consulting and another for [REDACTED] [REDACTED] [REDACTED]. All expenses were disallowed because of lack of documentation or the expenses being not deductible under the current tax laws. The Tax Commission has reviewed the case and hereby finds the adjustments made by the Bureau to be appropriate according to the facts and 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 August 10, 2023, directed to [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

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	3,660	593	502	4,755
2020	2,487	643	269	3,399
2021	1,761	88	153	2,002
			<b>TOTAL DUE:</b>	<b>\$10,156</b>

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.

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