

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of <div style="background-color: black; width: 200px; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 10px; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 150px; height: 20px;"></div> <p style="text-align: right; margin-right: 50px;">Petitioner.</p> <hr style="width: 50%; margin-left: 0;"/>)))))))	DOCKET NO. 1-530-422-272 DECISION
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The Intrastate Income Tax Audit Bureau (Bureau) sent [REDACTED] [REDACTED] [REDACTED] (Petitioner) a Notice of Deficiency Determination (Notice) for tax years 2020 and 2021. Petitioner protested, disagreeing with the denial of her business expenses and energy efficiency upgrades. The Tax Commission has reviewed the case and hereby upholds the Notice issued by the Bureau.

BACKGROUND

Petitioner filed her 2020 and 2021 Idaho income tax returns and reported activity from a Schedule C sole proprietorship called “[REDACTED] [REDACTED] [REDACTED]” and claimed a variety of Idaho deductions and credits. The Bureau conducted an examination of her returns and requested documentation for her Schedule C expenses including deductions and credits claimed on her Idaho returns. The Idaho deductions and credits included were energy efficiency upgrades, technological equipment donations, and contributions to Idaho educational entities. Petitioner did not respond, so the Bureau sent Petitioner a Notice, disallowing all expenses claimed on her Schedule C and the Idaho deductions and credits mentioned previously. Petitioner protested, stating she wanted to provide documentation to substantiate the deductions and credits disallowed in the Notice.

Petitioner provided various pieces of documentation including some background information on her Schedule C business and energy efficiency upgrades. Petitioner explained the Schedule C activity was an attempt to get into [REDACTED] and [REDACTED] [REDACTED]. She had experience transforming [REDACTED] - [REDACTED] [REDACTED] [REDACTED] in the [REDACTED] [REDACTED] into thriving

programs. She decided to close the business because [REDACTED] were not using the same training methodology since the pandemic and would not buy her programs. She tried to acquire different certifications, but it became too expensive to keep trying. Petitioner provided additional information regarding her budget, marketing plan, and resume, but never provided documentation or receipts for the actual expenses claimed on her returns.

Petitioner provided estimates and receipts from “Restoration Pro” for doors, windows, siding, roofing, insulation, masonry, sheetrock, appliances, gutters, garage doors, and other items. When evaluating the receipts, the Bureau questioned if Restoration Pro was part of an insurance claim rather than expenses paid out-of-pocket. Petitioner did not provide any additional information about the insurance claim. Petitioner also did not provide any documentation for her contributions to Idaho educational entities or technological equipment donations. The Bureau decided the information provided was not enough to reduce or modify the Notice, so they transferred the case to the Tax Commission’s Appeals Unit (Appeals). Appeals attempted to reach out to Petitioner on June 5, 2024, but she never responded. Without any new information, the Tax Commission must make its decision on the information currently 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). Petitioner did not properly document the expenses claimed on her 2020 and 2021 returns. Without said documentation, the Tax Commission cannot allow any of the expenses claimed.

Idaho Code section 63-3022B defines the Energy Efficiency Upgrades 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:

- (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.

Petitioner provided estimates from Restoration Pro for extensive work on her home. Some of the work done would qualify for the deduction, but it is unclear if the work was part of an insurance claim. In review of the documentation, the checks made out to Restoration Pro did not have Petitioner's name on them. When additional information was requested, Petitioner did not respond. While there might be some allowable expenses in this category, the Tax Commission agrees to not allow the deduction due to incomplete documentation. No additional information has been provided regarding the technological equipment donations and contributions to Idaho educational entities, so they will not be allowed either.

CONCLUSION

Petitioner was sent a Notice for tax years 2020 and 2021 disallowing her business expenses and a variety of Idaho deductions and credits. While she did provide a detailed description of the business and why she ended it, no documentation for the expenses claimed were provided. Additionally, the Idaho deductions and credits were either not properly substantiated, or no documentation was provided at all. The Tax Commission has given Petitioner sufficient time to provide the information needed. The Bureau's decision to disallow all expenses claimed on Petitioner's Schedule C and other discussed items was appropriate given the circumstances.

The Bureau added interest and penalty to Petitioner's 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 December 8, 2023, directed to [REDACTED] [REDACTED] [REDACTED]

IT IS ORDERED that Petitioner pay the following tax, penalty, and interest calculated per Idaho Code section 63-3045:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2020	\$3,068	\$78	\$351	\$3,497
2021	2,390	0	223	<u>2,613</u>
			TOTAL DUE:	\$6,110

DEMAND for immediate payment of the foregoing amount is hereby made and given.

An explanation of Petitioner's 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.
