

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

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Petitioner.

DOCKET NO. 1-561-977-856

DECISION

The Intrastate Income Tax Audit Bureau (Bureau) sent ■■■■■ (Petitioner) a Notice of Deficiency Determination (Notice) for tax years 2021 and 2022. Petitioner protested, disagreeing with the Bureau’s adjustments to his Energy Efficiency Upgrades Deduction (EEU), Alternative Energy Devices Deduction (AED), and Credits for Taxes Paid to Other States (CTPOS). The Tax Commission has reviewed the matter and hereby upholds the Notice issued by the Bureau.

BACKGROUND

The Bureau conducted an examination of Petitioner’s 2021-2022 Idaho income tax returns. On those returns, Petitioner claimed EEU, AED, and CTPOS paid to Virginia without providing a Virginia income tax return. Petitioner provided documentation for the EEU and AED, and form 763-S: “Virginia Special Nonresident Claim for Individual Income Tax Withheld.” After review of Petitioner’s documentation, the Bureau disallowed unqualifying EEU, AED, and CTPOS on his 2021-2022 returns by issuing a Notice. Petitioner protested, providing a letter objecting to the Bureau’s adjustments. The Bureau acknowledged Petitioner’s protest and transferred the case to the Tax Commission Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioner a letter explaining the appeals process and his right to a hearing. Petitioner responded and requested an informal hearing. During the hearing, Appeals and Petitioner discussed why the EEU and AED were disallowed. Eventually, Petitioner agreed with

the adjustments with some clarification of the law. Regarding the CTPOS, Petitioner explained that he worked remotely in Idaho for a company based in Virginia. His company mistakenly withheld Virginia income tax on his W-2. Form 763-S, as mentioned previously, is a special form with the state of Virginia to request tax to be refunded if it was incorrectly withheld from a taxpayer's paycheck. Petitioner stated that even though he filed the form, he did not receive the entirety of his refund. Petitioner was not sure why, explaining any time he tried to call the state of Virginia, they would speak in jargon he didn't understand. The hearing ended with Appeals requesting Petitioner to provide some documentation from Virginia explaining why some of his refund was not issued. Petitioner eventually stopped all communications with Appeals and never provided any additional information. The Tax Commission must issue its decision on the information available.

LAW AND ANALYSIS

Energy Efficiency Upgrades:

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:

- (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 documentation for wall insulation and a heat pump for his home. While the insulation qualified, the heat pump does not. The Bureau allowed for the \$1,800 in insulation expenses that was documented but disallowed the rest. This issue appears not to be in contention.

Alternative Energy Devices:

Idaho Code section 63-3022C(3) defines the AED deduction (**Emphasis added**):

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.

Petitioner claimed AED on a heat pump. As stated in the code section above, the only heat pumps that would qualify for the deduction would be ones heated by solar radiation or geothermal resources. According to the documentation provided, Petitioner installed an electric heat pump that does not meet the qualifications. This does not appear to be in contention.

Credit for Taxes Paid to Other States:

Idaho Code section 63-3029 defines the CTPOS, stating in part:

“(1) A resident individual shall be allowed a credit against the tax otherwise due under this chapter for the amount of any income tax imposed on the individual, an

S corporation, partnership, limited liability company, estate or trust of which the individual is a shareholder, partner, member, or beneficiary (to the extent attributable to the individual as a result of the individual's share of the S corporation's, partnership's, limited liability company's, estate's or trust's taxable income in another state), for the taxable year by another state on income derived from sources therein while domiciled in Idaho and that is also subject to tax under this chapter.”

Petitioner provided copies of Virginia Form 763-S, requesting the tax withheld from his paycheck to be refunded. Petitioner has not filed income tax returns with the state of Virginia or paid any tax liability. Tax Commission Administration and Enforcement Rule 700.03 further explains the limitations of the credit by stating: “The income tax payable to another state is to be the tax paid after the application of all credits.” Petitioner filed for a refund of his entire Virginia tax withholding and therefore has no tax liability. His issues with the state of Virginia are not relevant here, as he was clearly an Idaho resident and did not perform work in Virginia. Petitioner has no claim to any taxes paid to another state and the removal of the CTPOS by the Bureau was accurate.

CONCLUSION

Petitioner claimed EEU, AED, and CTPOS on his 2021-2022 Idaho income tax returns. After examination of his records, the Bureau adjusted those deductions and credits based on the information available. The heat pump did not qualify for either EEU or AED. Petitioner additionally did not have a tax liability to the state of Virginia and therefore could not claim CTPOS.

THEREFORE, the Notice of Deficiency Determination dated June 20, 2024, directed to

■■■■ is hereby AFFIRMED by this decision 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	\$3,769	\$188	\$383	\$4,340
2022	4,951	248	326	<u>5,525</u>
			TOTAL:	\$9,865

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.
