

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
)
) DOCKET NO. 1-624-867-840
) 0-282-690-560
)
)
) Petitioner.) DECISION
)
 _____)

The Income Tax Audit Bureau (Bureau) issued (Petitioner) two Notices of Deficiency Determinations. One for tax years 2011-2012 and another for years 2018-2019. Petitioner protested both Notices and participated in an informal hearing with the Tax Commission’s Appeals Unit (Appeals). She did not provide any additional documentation during the hearing. The Tax Commission has reviewed the matter and hereby upholds the Notices issued by the Bureau.

BACKGROUND

The Bureau first issued a Notice removing Petitioner’s Idaho net operating loss carryforward for tax years 2018-2019. The Bureau noted tax returns for the years 2011-2012 were missing, and therefore could not establish the loss carryforward she was claiming. Petitioner responded by providing the 2011-2012 returns in question to establish the loss. The Bureau inquired about many of the deductions claimed on the provided returns. Petitioner provided spreadsheets, 1099 forms, and handwritten documents describing various expenses related to her business, rental expenses, medical expenses, and gifts to charity. The Bureau did not accept any documentation provided by Petitioner to substantiate the deductions on her 2011 and 2012 returns. The documentation was either incomplete, missing, or did not follow the strict substantiation rules laid out in the law.

With no resolution to the audit with the documentation provided, the case was transferred to Appeals. Petitioner scheduled an informal hearing with herself and her occupational therapist participating. Petitioner explained that she understood the documentation provided was not enough to substantiate the deductions, but she had become too ill to go through it herself. She requested the Bureau to do an in-person audit to go through it for her, but that is not a service they could have provided. Her occupational therapist then started to go into detail about Petitioner's condition. She explained that Petitioner has a rare condition where she sleeps for most of the day and experiences severe neurological symptoms. Petitioner and her therapist insisted that her illness should be taken into consideration when deciding the outcome of the case. The option of a potential settlement was brought up, and she said she would consider it. After some time, Petitioner decided not to offer a settlement. In a letter to the Tax Commission, she stated she: "should not make an offer at this time due to the fact she knows she did not have any income for those tax years." With no additional documentation to consider, the Tax Commission must issue a 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 § 6001; Treasury Regulation § 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).

Schedule C – Profit or Loss From Business

Cost of Goods Sold:

When the Bureau requested documentation for this line item, Petitioner stated she could not afford to print all the necessary documents. The Bureau then said she could download the pdf files into a thumb drive and mail it to the Tax Commission. She did not do so. Again, stating her illness was a deterrent for going through all the proper documentation. Without proper documentation, no deduction can be allowed. Therefore, the Tax Commission upholds the Bureau's adjustments to Petitioner's cost of goods sold.

Travel/Meals:

Petitioner did not provide any documentation in the audit or appeals process to substantiate these expenses. She additionally did not maintain a travel log or similar record of her travel, meals, and entertainment activities. Therefore, the Tax Commission upholds the Bureau's adjustments to Petitioner's travel and meal expenses.

Schedule E – Income or Loss From Rental Real Estate

Advertising, Insurance, Interest, Legal and Professional Services, Office Expense, Rent or Lease, Supplies, Taxes and Licenses, and Other Expenses:

Petitioner did not provide any documentation in the audit or appeals process to substantiate these expenses. She additionally did not provide any documentation to prove these expenses were paid during the taxable year. Therefore, the Tax Commission upholds the Bureau's modified adjustments to Petitioner's expenses mentioned above.

Depreciation/Section 179 Expenses:

Petitioner failed to provide any documentation to show how the depreciation was calculated. In addition, she failed to provide proof of their cost or their use in an active trade or business. Therefore, the Tax Commission upholds the Bureau's adjustments to Petitioner's depreciation and section 179 expenses.

Schedule A – Itemized Deductions

Medical/Dental Expenses:

Petitioner failed to provide any documentation to prove that the amounts were for medical/dental expenses. In addition, she failed to provide any documentation to prove that these expenses were paid during the taxable year. Therefore, the Tax Commission upholds the Bureau's adjustments to Petitioner's medical/dental expenses.

2018 & 2019 Idaho Net Operating Loss

Petitioner has yet to substantiate the losses in 2011 and 2012 to carry over into the tax years 2018 and 2019. Therefore, the Tax Commission upholds the Bureau's adjustments to Petitioner's Idaho net operating losses for 2018 and 2019.

CONCLUSION

The Bureau adjusted Petitioner’s 2011, 2012, 2018, and 2019 income tax returns because documentation was lacking, inadequate, or the deductions were incorrectly claimed. Regarding Petitioner’s medical condition, the Tax Commission is sympathetic to her situation, but the law is clear concerning substantiation and record keeping requirements. The Tax Commission cannot provide tax preparation services for her during the audit or appeals process to assist her in processing records. Nevertheless, the Tax Commission reviewed the Bureau’s adjustments and found them appropriate based on the documentation and information available. Therefore, the Tax Commission agrees with and upholds the Bureau’s Notices of Deficiency Determination.

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 two Notices of Deficiency Determination dated September 22, 2021, and April 28, 2022, directed to

| <u>YEAR</u> | <u>TAX</u> | <u>PENALTY</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-------------|------------|----------------|-----------------|--------------|
| 2011 | \$1,661 | \$415 | \$706 | \$2,782 |
| 2012 | 5,542 | 1,386 | 2,149 | 9,077 |
| 2018 | 11 | 0 | 0 | 11 |
| 2019 | 2,415 | 0 | 261 | <u>2,676</u> |
| | | | TOTAL DUE | \$14,546 |

Interest is calculated though September 22, 2023.

An explanation of Petitioner’s right to appeal this decision is enclosed.

DATED this _____ day of _____ 2023.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2023,
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.
