

In the Matter of the Protest of

Petitioners.

DECISION

Schedule E for tax years 2018 through 2021, which resulted in Idaho taxable income for tax years 2018 and 2019, and eliminated the Idaho NOL carryover claimed in tax years 2020 and 2021.

The representative protested and indicated that they would provide substantiation for the expenses. The Bureau received some substantiations from the representative and modified the Notice as a result. The Bureau sent Petitioners a modified Notice; however, Petitioners still disagreed with the modified Notice. The Bureau acknowledged the protest and referred the matter to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners and the representative a letter explaining the options available for redetermining a Notice. The representative responded and submitted a settlement offer. After careful consideration, the Tax Commission declined the settlement offer. Appeals contacted the representative to inform him of the outcome of the settlement discussion. The representative then requested additional time to provide documentation to substantiate the expenses claimed. Additional time was granted and the representative eventually provided documentation for consideration. Having reviewed all available documentation, the Tax Commission makes its decision on the matter.

LAW AND ANALYSIS

Idaho Income Tax Administrative Rule 201.02.b., states: "Adjustments to a net operating loss deduction may be made even though the loss year is closed due to the statute of limitations but will not result in any tax due or refund for the closed taxable years."

Petitioners reported an Idaho loss for tax years 2018 and 2019, which occurred because of the expense deductions they took on their Schedule C and Schedule E. Petitioners carried these Idaho losses over to tax years 2020 and 2021. The Tax Commission reviewed Petitioners' expenses

deducted on their Schedule C and Schedule E for tax years 2018 and 2019 to determine whether they are entitled to deduct these expenses.

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 201.01.a., 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 liability¹. 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).

During Appeals' review, the representative provided federal Forms 1099-MISC that Petitioners' Schedule C business² issued to their subcontractors for tax years 2017 and 2018. The

¹ IRC section 6001 and Treasury Regulation section 1.6001-1(a).

² [REDACTED] (EIN [REDACTED])

representative also provided an invoice issued by a subcontractor for Petitioner's Schedule C business in May of 2018. The Tax Commission allowed these expenses, which increased Petitioners' Schedule C expenses for tax years 2017 and 2018. However, there is still no Idaho NOL carryover going into tax years 2020 and 2021. Petitioners did not substantiate all Schedule C and E expenses and the ones they did substantiate did not exceed Petitioners' income. Therefore, the Tax Commission upholds the Notice, eliminating Idaho NOLs.

CONCLUSION

The Bureau disallowed Petitioners' unsubstantiated deductions on their Idaho returns filed for tax years 2018 through 2021. During administrative review, the representative provided some substantiations for tax years 2017 and 2018; however, there were still no Idaho losses for these years. Therefore, the Tax Commission found the Bureau's adjustments correct. The Bureau added interest and penalty to Petitioners' tax liability. The Tax Commission reviewed those additions and found them appropriate and in accordance with the Idaho Code sections 63-3045 and 63-3046.

THEREFORE, the Tax Commission AFFIRMS the Notice as modified by the Bureau on July 16, 2024, directed to Petitioners.

| <u>YEAR</u> | <u>TAX</u> | <u>PENALTY</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-------------|------------|----------------|-----------------|-----------------|
| 2020 | \$8,776 | \$439 | \$942 | \$10,157 |
| 2021 | 1,947 | 97 | 168 | 2,212 |
| | | | Total Due | <u>\$12,369</u> |

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 _____ 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.

[REDACTED]

[REDACTED]