BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	)	
	)	DOCKET NO. 1-697-682-432
[redacted]	)	
	)	
Petitioner.	)	DECISION
	)	

[redacted] (Petitioner) protested the Notice of Deficiency Determination (Notice) dated September 4, 2024. The Tax Commission reviewed the matter and hereby issues its final decision to uphold the Notice as modified by the Bureau on December 4, 2024.

Background

During a review of taxpayer information, the Tax Commission's Tax Discovery Bureau (Bureau) could not locate Petitioner's Idaho individual income tax returns for tax years 2017, 2018, 2020, and 2021. The Bureau determined that Petitioner met the requirements to file Idaho tax returns for the years in question.

The Bureau first contacted Petitioner on June 13, 2024, inquiring about the missing returns. Petitioner did not respond to the Bureau's nonfiler letter, so the Bureau prepared returns for her and issued the Notice on September 4. In calculating Petitioner's Idaho taxable income for the years in question, the Bureau included wages, unemployment compensation, taxable grants, interest, capital gains from stock sales and cryptocurrency conversion, and estimated self-employment income from her business, [redacted] The Bureau determined that Petitioner was an Idaho resident, unmarried, and had one dependent for the years 2017, 2018, 2020, and 2021.

Petitioner responded to the Bureau's Notice. On September 30, Petitioner provided the Bureau with documents for each year 2017, 2018, and 2020. For 2017, Petitioner sent information from the IRS showing that they had prepared a return for her using the Single filing status, no dependents, an adjusted gross income of $46,845, and taxable income of $36,445; she did not provide an Idaho return for tax year 2017. For 2018 and 2020, Petitioner provided federal and Idaho returns, which the Bureau determined better but not completely accurately represented Petitioner's Idaho taxable income. The Bureau sent these two returns on for processing and sent Petitioner a letter on December 4 requesting updated returns to include specific income items.

On October 15, Petitioner sent a copy of an unsigned federal return for tax year 2021 showing significantly less taxable income than the Bureau had determined in the Notice. She did not provide a corresponding Idaho return. Because of the large discrepancy in income between Petitioner's 2021 federal return and the Notice, the Bureau determined that the return was a protest. Petitioner did not send any correspondence intentionally stating that she was protesting the Notice, nor did she specify any issues with which she disagreed. On December 4, the Bureau sent Petitioner a separate letter acknowledging the 2021 federal return as a protest. This letter also cancelled the Notice for tax years 2018 and 2020 because Petitioner had filed actual returns. Regarding the 2021 return, the letter mentioned the difference in the wage expense the Bureau allowed in the Notice based on withholding returns Petitioner filed with the Tax Commission and the wage expense Petitioner claimed, along with the cost of goods sold claimed at over $1 million. The Bureau requested documentation to support both the payroll and cost of goods sold claimed on the federal return along with an actual Idaho return for 2021. The Bureau indicated that the appeals process would move forward if Petitioner did not provide the requested information by December 18. Petitioner did not respond by that date.

On February 12, 2025, the Bureau spoke with Petitioner on the telephone. The Bureau reviewed with Petitioner the items requested in the December 4 letters. Petitioner indicated she had not received them and requested copies mailed to a new address. The Bureau told her that the case was being transferred to Appeals. After this transfer, Appeals confirmed with the Bureau that the copies had not been sent.

On April 7, 2025, Appeals mailed Petitioner a letter outlining the available options for redetermining a protested Notice to the address provided to the Bureau on February 12. Appeals included copies of the Bureau's two December 4 letters. Petitioner did not respond to Appeals by the deadline provided in the letter. After conducting some additional research, Appeals located an email address Petitioner was using to communicate with the Tax Commission's Compliance unit on another matter. On May 22, Appeals sent Petitioner an email with copies of the same letters sent on April 7. Petitioner did not respond by the deadline provided.

In the absence of additional information from Petitioner, the Tax Commission must make its decision based on the information currently available.

Law & Analysis

The Bureau's Notice proposed assessments for tax years 2017, 2018, 2020, and 2021 in the absence of actual Idaho income tax returns. Petitioner filed returns for tax years 2018 and 2020. The Bureau cancelled the Notice for those two years in a letter dated December 4, 2024. While the Bureau has requested additional information for 2018 and 2020 to verify the correctness of the returns in accordance with Idaho Code section 63-3042, for the current matter of unfiled Idaho income tax returns, the issue is closed for those years. Tax years 2018 and 2020 will not be mentioned further in this decision.

Idaho Code section 63-3030(a)(1) requires each individual who is a resident of Idaho to file an Idaho income tax return if required to file a federal return. Internal Revenue Code section 6012 states that the requirement to file a federal return is based on gross income. Gross income includes wages and gross receipts from self-employment income before any deductions for ordinary and necessary business expenses. Based on available information, Petitioner received sufficient wages in 2017 and gross receipts from sales in her business in 2021 to be required to file federal income tax returns for these years. However, there is no evidence that Petitioner filed actual federal returns and the Tax Commission has not received Idaho returns for either of these years.

In Idaho, it is well established that a Tax Commission Notice is presumed to be correct, and the taxpayer bears the burden of showing the deficiency is erroneous[1]. The Tax Commission requires Petitioner to provide adequate evidence to establish that the amount asserted in the Notice is incorrect. Petitioner failed to do so. She has not filed actual returns or provided any substantive argument or documentation to show the individual income tax returns prepared by the Bureau for tax years 2017 and 2021 are incorrect. On the contrary, the information that Petitioner provided for 2017 indicates that the Bureau's figures match those of the IRS substitute return. The Schedule C Petitioner provided for 2021 contains figures that the Tax Commission is unable to verify and appear to be questionable. While the gross receipts on Schedule C are within $2,000 of the sales reported for sales tax purposes, the wage expense (which amount is duplicated on the return in calculating cost of goods sold, meaning that the same amount is claimed twice as an expense) is more than eight times the wages reported to the Tax Commission for Idaho income tax withholding purposes. Also, the beginning inventory reported for 2021 matches the amount reported for materials and supplies (both are used in calculating cost of goods sold) but not the ending inventory reported for the same business for 2020. Additionally, purchases (another figure used in calculating cost of goods sold) match the gross receipts reported. In short, the Tax Commission is unable to

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[1] *See Parsons v. Idaho State Tax Commission*, 110 Idaho 572, 574-575 n.2 (Ct. App. 1986) (citing *Albertson's Inc. v. State, Dept. of Revenue*, 106 Idaho 810, 814 (1984))

accept Petitioner's reported Schedule C without further verification, and Petitioner has been unresponsive during the redetermination process. Therefore, the Tax Commission determined that the returns prepared by the Bureau reflect reasonable calculations of Petitioner's Idaho taxable income and related tax for 2017 and 2021.

The Bureau added interest and penalty to Petitioner's tax deficiency. The Tax Commission reviewed those additions and finds them to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

Conclusion

Petitioner was required to file federal and Idaho income tax returns for 2017 and 2021 but failed to do so. Petitioner has not provided credible evidence that the tax proposed in the Notice is incorrect.

THEREFORE, the Notice dated September 4, 2024, and modified via letter on December 4, 2024, is hereby UPHELD and MADE FINAL.

IT IS ORDERED that Petitioner pay the following tax, penalty, and interest:

YEAR	TAX	PENALTY	INTEREST	TOTAL
2017	$1,403	$351	$452	$2,206
2021	20,830	5,208	3,647	29,685
				$31,891

The Tax Commission DEMANDS immediate payment of this amount. Interest is calculated in accordance with Idaho Code section 63-3045.

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:

[redacted]

Receipt No.

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