BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of [redacted]	)	DOCKET NO. 1-707-713-536
Petitioner.	)	DECISION

[redacted] (Petitioner) protested the Notice of Deficiency Determination (Notice) dated August 31, 2023, issued by the Income Tax Audit Bureau (Bureau). Petitioner disagreed with the Bureau's disallowance of the credit claimed for Idaho research activities (Idaho research credit). The Idaho State Tax Commission (Tax Commission) reviewed the matter and for the reasons stated below upholds the Notice. Since Petitioner is a flow-through entity, Petitioner's shareholders are liable for any additional tax, penalty, and interest.

BACKGROUND

Petitioner is an Idaho S-Corporation, developing real estate, designing floorplans, engineering[1] for construction of new homes for future customers. Petitioner hired a third party to analyze whether they could claim the Idaho research credit under Idaho Code section 63-3029G. The third party determined that Petitioner qualified for the Idaho research credit. Therefore, Petitioner claimed the credit on amended or original tax returns for the years shown on the third party's study. The Bureau selected these returns to examine the Idaho research credit.

[1] Merriam-Webster dictionary defines "engineering" as "the application of science and mathematics by which the properties of matter and the sources of energy in nature are made useful to people" or "the design and manufacture of complex products."

For the tax year 2021, the Bureau adjusted Petitioner's Idaho investment tax credit (ITC) and the recapture of ITC, which changed the credit for tax Petitioner paid[2] on their shareholders' behalf. Petitioner agreed with these adjustments; therefore, the Tax Commission will not address them any further in this decision.

The Bureau requested Petitioner respond to specific questions regarding their research activities and provide the study for the Idaho research credit conducted by the third party. Petitioner's representative responded and provided the study for the Idaho research credit. The study states that Petitioner was entitled to claim the Idaho research credit on multiple projects, including, development of house floorplans, engineering for home construction, custom software application for website, and custom floorplan models to be used in software application.

The Bureau reviewed the study and determined that Petitioner's projects did not satisfy all the requirements for the credit; therefore, the Bureau disallowed the Idaho research credit claimed for all projects and issued a Notice. Petitioner's representative protested the Notice, disagreeing with the Bureau's determination. The representative argued that the activities undertaken for the projects are qualified research and the expenditures are qualified research expenses. The Bureau acknowledged the protest and referred the matter to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioner and their representative a letter explaining the options available for redetermining a Notice. The representative responded and requested an informal hearing, which

[2] Petitioner elected to file an affected business entity (ABE) return for the tax year 2021. The total tax (line 56, Idaho Form 41S) is after credits. With the Bureau's adjustments on the ITC and its recapture, the total tax has changed, which changed the amount of ABE tax payment that their shareholders can claim on the 2021 individual income tax return.

was held on September 19, 2024. Having reviewed the file, the Tax Commission hereby issues its final decision.

ISSUE

The issue on appeal is whether Petitioner's activities have met the requirements for the Idaho research credit pursuant to Idaho Code section 63-3029G.

LAW AND ANALYSIS

Idaho Code section 63-3029G allows a nonrefundable credit for increasing research activities in Idaho. For purposes of the Idaho research credit, "qualified research expenses" means the same as defined in Internal Revenue Code (IRC) section 41, except that the research must be conducted in Idaho.

To be eligible for the credit, a taxpayer must show that it performed "qualified research" during the years at issue in accordance with IRC section 41(d). Research activity is "qualified research" under IRC section 41(d) only if it satisfies all the four (4) tests. *See Union Carbide Corp. & Subsidiaries v. Comm'r*, 97 T.C.M. (CCH) 1207 (T.C. 2009), 2009 WL 605161, at *77, *aff'd*, 697 F.3d 104 (2d Cir. 2012).

First, the research expenses must be eligible for treatment as expenses under IRC section 174 (the section 174 test)[3]. Second, the research must be undertaken for the purpose of discovering information that is technological in nature (the discovering technological information test)[4]. Third, the application of the research must be intended to be useful in the development of a new or improved business component (the business component test)[5]. Fourth, substantially all the

[3] IRC section 41(d)(1)(A).
[4] IRC section 41(d)(1)(B)(i).
[5] IRC section 41(d)(1)(B)(ii).

activities constitute elements of a process of experimentation for a new or improved function[6], performance, or reliability or quality (the process of experimentation test)[7]. If the research fails any of these tests, it is not qualified research for the purposes of the research credit.

A research activity is not "qualified research" if the purpose of the research relates to style, taste, cosmetic, or seasonal design factors[8]. Further, the activities specifically excluded from "qualified research" are the research conducted after the beginning of commercial production of the business component[9], and the research related to the adaptation of an existing business component to a particular customer's requirement or need[10].

Section 174 Test

IRC section 174[11] provides that a taxpayer may treat research or experimental expenditures, paid or incurred, during the taxable year in connection with its trade or business, as expenses not chargeable to a capital account[12]. Treasury Regulation section 1.174-2(a)(1) defines the term "research or experimental expenditures" as used in section 174, generally includes all such costs incident to the development or improvement of a product and would "… represent research and development costs in the experimental or laboratory sense". The qualified expenditure must be for activities intended to eliminate uncertainty in the development or improvement of a product. Treasury Regulation section 1.174-2(a)(1) states in part: "Uncertainty

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[6] Merriam-Webster defines "function" as "the action for which a person or thing is specifically fitted or used or for which a thing exists (purpose)."
[7] IRC sections 41(d)(1)(C) and 41(d)(3).
[8] IRC section 41(d)(3)(B).
[9] IRC section 41(d)(4)(A).
[10] IRC section 41(d)(4)(B).
[11] IRC section 174: Prior to 2022, taxpayers could immediately expense Research and Development (R&D) expenditures under IRC section 174. For the tax years beginning on and after January 1, 2022, the Tax Cuts and Jobs Act (passed in 2017, signed into law and came into effect in 2022) requires R&D expenditures to be amortized over five years for domestic R&D expenditures.
[12] IRC section 174(a)(1).

exists if the information available to the taxpayer does not establish the capability or method for developing or improving the product or the appropriate design of the product." *Max v. Commissioner of Internal Revenue*, T.C. Memo. 2021-37 (2021). However, "because the taxpayer need only be uncertain as to 'the capability *or* method… *or* the appropriate design of the improvement, an uncertainty may exist even if the taxpayer knows that it is technically possible to achieve a goal but is uncertain of the method or appropriate design to use to reach that goal."[13] Treasury Regulation section 1.174-2(a)(1) also states; "Whether expenditures qualify as research or experimental expenditures depends on the nature of the activity to which the expenditures relate, not the nature of the product or improvement being developed or the level of technological advancement the product or improvement represents."

Discovering Technological Information Test

To satisfy the technological in nature requirement for qualified research, the process of experimentation used to discover information must fundamentally rely on principles of the physical or biological sciences, engineering, or computer science[14]. A taxpayer may employ existing technologies and may rely on existing principles of the physical or biological sciences, engineering, or computer science to satisfy this requirement.

Business Component Test

A taxpayer must intend to apply the information being discovered to develop a new or improved business component of the taxpayer. A business component is any product, process, computer software, technique, formula, or invention, which is to be held for sales, lease, license,

[13] Treas. Reg. section 1.174-2(a)(1).
[14] Computer science is the study of computers and algorithmic processes, including their principles, their hardware and software designs, their applications, and their impact on society.

or used in a trade or business of taxpayer, and each "business component" of the taxpayer must satisfy all 4 tests.

Process of Experimentation Test

To overcome uncertainties, a taxpayer should use a systemic inquiry as part of the process of experimentation; a requirement of qualified research under IRC section 41(d)(1)(C). To be a true process of experimentation, the project must use the scientific method. This means "the project must involve a methodical plan involving a series of trials to test a hypothesis, analyze the data, refine the hypothesis, and retest the hypothesis so that it constitutes experimentation in the scientific sense." *Union Carbide Corp. & Subs. v. Commissioner*, T.C. Memo. 2009-50 (2009).

Treasury Regulation section 1.41-4(a)(6) states in part, "In order for activities to constitute qualified research under section 41(d)(1), substantially all of the activities must constitute elements of a process of experimentation that relates to a qualified purpose." The "substantially all" requirement of IRC section 41 (d)(1)(c) is applied separately to each business component and satisfied only if eighty percent (80%) or more of a taxpayer's research activities has constituted elements of a process of experimentation for a purpose described in IRC section 41(d)(3). Treasury Regulation section 1.41-4(a)(6) also requires that the substantially all test be applied to activities, not physical elements of the business component being developed or improved since the extent of experimentation would not vary in proportion to the size of each element, for example, determining the design of smaller and more complex elements might require more experimentation than determining the design of larger but simpler elements.

In the present case, Petitioner claimed the Idaho research credit for multiple projects under two business components: "Product" consisting of house floorplan development (floorplan design) and engineering for home construction, and "Software" consisting of a custom application for their

website (website development) and development of custom floorplan models for their website (three-dimensional (3D) modeling). The Tax Commission reviews each business component to determine whether the activity qualifies for the research credit.

	Project Name	Business Component	Project Start Date	Project End Date
1.	[redacted] - XL	Product (floorplan design)	7/26/2019	10/16/2019
2.	[redacted]	Product (floorplan design)	10/6/2018	1/17/2019
3.	[redacted] Bonus	Product (floorplan design)	1/20/2019	4/3/2019
4.	[redacted] - Widened	Product (floorplan design)	11/17/2019	3/25/2020
5.	Website Development (Neoreef)	Software	7/1/2020	Ongoing
6.	3D Modeling (Revit)	Software	1/1/2020	Ongoing
7.	Construction Engineering	Product (engineering)	2/1/2020	Ongoing
8.	[redacted] Town Homes Development	Product (floorplan design)	6/1/2020	12/31/2020

Floorplan Design and Engineering for Home Construction

Petitioner has been creating house floorplans since 2012, continuously adding new floorplans, adjusting existing floorplans, and retiring old floorplans. Petitioner stated in their correspondence, "Homes must be re-engineered for a floorplan to work depending on the conditions of the lot (slope, size, dimensions, soil conditions, etc.) This is an ongoing process that never really ends as we are constantly making adjustments and improvements to adapt to the needs of our customers."

During the hearing, Petitioner explained the steps of a floorplan development project. First, Petitioner purchases a plot of land based on their market research, and then have a third-party engineering company test the soil and conduct site survey (e.g., detailed mapping, measuring, and analyzing the sites' physical characteristics of the lot). Petitioner's in-house engineers may be involved in analyzing test results and site inspections. Once all these are complete, Petitioner starts developing a floorplan design for the site.

A floorplan design depends on the size of the lot (e.g., width and length, square footage, access, etc.) Petitioner purchased for the project. To develop a floorplan design in a full-scale and functional form, they would first draw multiple concepts and then conduct a feasibility analysis. While conducting the house floorplan development projects, Petitioner "encountered multiple uncertainties and challenges throughout the design process", for example, reconfiguring spaces in the original design to add extra space (e.g., bedroom, hallway, etc.), finding the optimal placement of garage to fit in "unique, wide, corner lots", and engineering for structural components and mechanical space[15] to accommodate the future customer's needs. The study indicates that Petitioner was uncertain of the appropriate design to use in the process of developing house floorplans and engineering for structural components[16] related to the house floorplans at the outset of the project.

Petitioner indicated that uncertainties existed, not just while developing floorplans, but also during the soil test, site survey, and engineering for construction as well. To overcome these uncertainties, Petitioner utilized an iterative development process[17], and as part of the iterative process, they created multiple alternatives of two-dimensional (2D) floorplans and 3D models by using computer-aided design (CAD) software[18] to identify design flaws and revise the design, if any flaws being identified, to prevent a fatal accident or disruption during construction. Petitioner starts a "new" iterative process when they start a new project to develop a floorplan uniquely

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[15] Mechanical space means space in a building devoted to operations and maintenance, which includes restrooms, furnace rooms, storage areas and hallways.

[16] Petitioner hired [redacted] a third-party contractor, for the structural component engineering.

[17] The iterative process is the practice of building, refining and improving a project, product, or initiative. Teams that use the iterative development process create, test and revise until they're satisfied with the end result. The iterative process generally has 5 steps: 1. Planning and requirements, 2. Analysis and design, 3. Implementation, 4. Testing, and 5. Evaluation and review.

[18] Petitioner started using CAD software: AutoCAD LT in 2012, REVIT in 2014, and Lumion in 2020. All are currently in use.

designed for a specific site because each site has different soil condition and engineering requirements.

Simply drawing a design by using a CAD software[19] would not be a process of experimentation if it doesn't involve an evaluation of design alternatives nor does it fundamentally rely on the principles of engineering, or computer science[20]. The drafter's use of computers in preparing their drawings does not qualify their work as experimentation[21]. However, Petitioner's process of developing floorplan designs involves not just creating a drawing for a project but also configuring the optimal floorplan for a given lot, and evaluating various materials for performance, quality, reliability, durability and functionality based on project specifications. To discover information, Petitioner fundamentally relied on principles of engineering; therefore, they satisfied the discovering technological information test.

Once Petitioner finalizes a floorplan design, their construction team starts building a house. Petitioner clarified in a letter to Appeals that they are claiming the credit only for the costs related to the floorplan design development and the engineering for the home construction[22], not for the construction expenses (e.g., costs of materials, construction labor, etc.). The Tax Commission finds that Petitioner's activities do constitute the elements of a process of experimentation for the purposes under IRC section 41(d)(3)(A)[23]. However, it is not clear whether "substantially all" of

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[19] Petitioner used AutoCAD LT[19] for drafting and drawing tasks in 2D.
[20] There is a difference between "drafting" and "designing" work. "Drafting" is more of just the actual input into a CAD or manually drawing it, essentially, "creating the drawings". On the other hand, "designing" work may be trying to fit different items together properly, and "it's kind of one step above drafting." *Little Sandy Coal Company, Inc. v. Commissioner*, T.C. Memo. 2021-15 (2021).
[21] Tres. Reg. 1.41-4(a)(7) states in pertinent part; "The employment of computers or information technology, or the reliance on principles of computer science… does not itself establish that qualified research has been undertaken."
[22] Petitioner has multiple business components, all of which revolve around real estate development and home construction, which include, concrete, excavation, cabinetry work as part of construction business as well as other real estate development activities and projects.
[23] IRC section 41(d)(3)(A) In general. Research shall be treated as conducted for a purpose described in this paragraph if it relates to (i) a new or improved function, (ii) performance, or (iii) reliability or quality.

their research activities are for said purposes. The Tax Commission further reviews Petitioner's research expenses to determine whether Petitioner met the "substantially all" test under the IRC and Treasury Regulations.

For tax year 2019, the study describes that Petitioner conducted three floorplan design projects: [redacted]-XL, [redacted] and [redacted] Bonus and provides their calculation of qualified wages:

Employee Name	Title	12/31/2019 Box 1 W-2 Wages	12/31/2019 Qualified Percentage	12/31/2019 Qualified Wages	12/31/2019 Qualified Wages
[redacted]	President	199,049	75%	149,287	149,287
[redacted]	Operations Manager	94,121	40%	37,649	37,649
[redacted]	Architectural Design Manager	22,643	100%	22,643	22,643
[redacted]	Superintendent / Production Manager	99,122	15%	14,868	14,868
[redacted]	Intern / 3D Modeling	13,140	75%	9,855	9,855
[redacted]	Interior Designer	70,727	0%	0	0
[redacted]	Estimator	65,363	15%	9,804	9,804
[redacted]	Intern / Estimator	36,649	30%	10,995	10,995
	Total	**600,814**		**255,101**	**255,101**

Based on the descriptions provided in the study, there are three employees who potentially performed qualified research activities: [redacted] the president/owner of the company and primarily responsible for developing design concepts in CAD software, [redacted] the operations manager and the head of preconstruction who performs high-level design work, and [redacted] the architectural design manager, who is responsible for performing technical design activities. During the hearing, Petitioner clarified that they did not have a time tracking system, and the "qualified percentage" is an estimation of the time spent on research activities based on interviews with each employee. Petitioner estimated the employees' wages related to research activities, and then calculated the percentage of the time spent for each project:

Project Year	2019		
Project Name	[redacted] - XL	[redacted]	[redacted] Bonus
Business Component	Product (floorplan design)	Product (floorplan design)	Product (floorplan design)
Project Start Date	7/26/2019	10/6/2018	1/20/2019
Project End Date	10/16/2019	1/17/2019	4/3/2019
Employees			
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
Contractors			
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%
[redacted]	33%	33%	33%

Petitioner's calculation of "33%" may indicate that each employee spent 1/3 of their time conducting research activities on each project regardless of its complexity, or that all three projects were identical, so they simply divided total time spent by 3. Either way, it doesn't change the fact that Petitioner estimated their employees' time spent on each project.

For tax years 2020 and 2021, Petitioner also used estimates similar to those used for tax year 2019 and then allocated the estimated wages to each project at the percentage of the time spent by employees. The allocation percentage used for 2020 and 2021 is also an estimate based on interviews with employees. Petitioner's estimation is not an accurate reflection of the time each employee spent on projects.

For the contractor expenses, the representative provided several invoices. However, because the contractors' invoices do not clearly isolate the expenses for research activities from the regular business expenses, it is not clear how Petitioner estimated an allocation percentage for each project.

IRC section 6001 requires a taxpayer to keep records in compliance with the IRC and Treasury Regulations. Treasury Regulation section 1.6001-1(a) requires a taxpayer to "keep such permanent books of account or records . . . as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown" on a tax return. Treasury Regulation section 1.41-4(d) provides that a taxpayer specifically "must retain records in sufficiently usable form and detail to substantiate that the expenditures claimed are eligible for the credit.", but it does not require substantiation of research credit claim to be in any particular types of documents.

The Tax Court addressed the substantiation burden that taxpayers, claiming the research credit, must bear. *Little Sandy Coal Co. v. Commissioner*, 62 F.4th 287, 308 (7th Cir. 2023), aff'g T.C. Memo. 2021-15. In *Little Sandy Coal Co.,* the taxpayer relied on trial testimony as substantiation for its estimated research expenses and asked the Tax Court to take it on faith that the allocations of its employees' wages were only for activities constituting qualified research. The Tax Court determined that the taxpayer had failed to show entitlement to the credit and emphasized that "shortcut estimates of experimentation-related activities will not suffice…[s]omething more, such as documentation of time spent on such activities, is necessary."

In the present case, the representative explained that the estimate of time spent on projects is based on interviews with employees but provided no details of the interviews (e.g., interview questions, employees' responses to the interview questions, measurements of each question and response, etc.). The Tax Commission finds no reasonable basis for the estimated amount of wages. Therefore, the Tax Commission is not able to determine if Petitioner met the "substantially all" test.

Treasury Regulations section 1.174-2(a)(5), providing a section 174 shrinking-back rule, explains that, even if a business component as a whole fails any of the four tests, a taxpayer may

still satisfy the tests "at the level of the component or subcomponent of the product." However, Petitioner provided no breakout of the projects by component or subcomponent. Without a breakout by component or subcomponent, the Tax Commission is not able to apply the shrinking-back rule.

Software

The Internal Revenue Service (IRS) Final Regulations (T.D. 9104)[24] identifies uncertainty in software development, concerning a functional aspect of a software business component. There is a distinction between a software development uncertainty, that is resolved through a process of experimentation, and other types of uncertainties, namely business and project uncertainties. The software development uncertainty, that is resolved through a process of experimentation, is that a taxpayer may have to configure a software application and may be uncertain about which configuration choices to make. However, this "configuration" uncertainty, in and of itself, doesn't indicate that the taxpayer subsequently engaged in a process of experimentation to eliminate the uncertainty. The activities undertaken to eliminate the configuration uncertainty are determinative. Business uncertainties could, for example, be whether potential users will react favorably to the new product, and/or whether the product will be competitive. Project uncertainties could be whether the existing staff are adequately trained to use technology, and/or whether the project can be completed within a given schedule and budget. Such uncertainties, business/project uncertainties, do not meet the requirements of IRC section 41(d).

The Tax Commission reviews Petitioner's software development projects: "Website Development" and "3D Modeling" as follows.

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[24] Treasury Decision 9104, 69 FR 22-29, January 2, 2004, also called "IRS Final Regulations (T.D. 9104) on Credit for Increasing Research Activities".

Website Development

The "Website Development" project is to create their e-commerce site with a function for customers to examine houses and purchase them online. Petitioner focused on developing a feature that allows a potential home buyer to hover over a house image listed on their website and display it on available lots by mapping them via the Global Positioning System (GPS). Petitioner encountered "uncertainties" throughout the development of the mapping feature while "getting the GPS coordinate to align with the mapping, getting the text to display correctly for users, and figuring out how to have the 'hover over' functionality work." To accomplish the objective of this project, Petitioner entered into a custom software development agreement with a third-party website development company[25] (contractor) and assigned several of their own employees (i.e. graphic designer, operations manager, and sales & marketing manager) as well as the president to work with the contactor. The project plan prepared by the contractor provides an approximate timeline and an estimate of total costs. However, it does not describe uncertainties, process of experimentations to eliminate uncertainties if any, or any details of the tests examining whether they met the requirements for the research credit. The study simply stated that Petitioner utilized an iterative development process for the website development project. There is no record substantiating their activities such as planning, analyzing, designing, implementing, testing, evaluating, or reviewing regarding this project[26].

The study and the contactor's project plan do not clearly explain the process of experimentation, but they might have fundamentally relied on principles of computer science because the project was to make their e-commerce site virtually accessible by their future customers.

[25] Neoreef Corporation.

[26] Treas. Reg. section 1.41-4(d) "A taxpayer claiming a credit under section 41 must retain records in sufficiently usable form and detail to substantiate that the expenditures claimed are eligible for the credit." IRC section 6001, Treas. Reg. section 1.6001-1(a).

However, relying on principles of computer science alone is not conclusive evidence of qualified research as they must meet all other requirements of IRC section 41(d).

The Tax Commission finds that Petitioner's records do not sufficiently substantiate their entitlement to the Idaho research credit for website development; therefore, their research activities did not meet the requirements under the IRC and Treasury Regulations.

3D Modeling

Petitioner explained the "3D Modeling" as "development of customer floorplan models for application[27]". For floorplans to be integrated and used within the 3D modeling software, Petitioner had to "create and set up the floorplans in a manner that, when the features were applied, it would match and show the actual features when being exported." Petitioner assigned several employees (i.e. CAD designer, Revit designer, structural drafter, and estimator) to work on this project. Petitioner's correspondence to Appeals states that they used REVIT and Lumin to create 3D models. REVIT is a building information modeling[28] software, which allows users to design a building and its structural components in 3D, annotate the model with 2D drafting elements and access building information from the building model's database. REVIT includes tools to plan and track various stages in the building's lifecycle, from concept to construction and later maintenance and/or demolition. Lumin is a real-time 3D architectural visualization software and allows the creation of high-resolution renders[29].

[27] The tax year 2019 is the first year that Petitioner started using a software to create three-dimensional (3D) models. The 3D modeling software they used for 2019 is Revit, and for 2020 is Lumion.
[28] Building information modeling is a process involving the generation and management of digital representations for the physical and functional characteristics of buildings and other physical assets. Building information models are computer files (often but not always in proprietary formats and containing proprietary data) which can be extracted exchanged or networked to support decision-making regarding a build asset.
[29] Real-time rendering is computer graphics technique that generates images in real time, allowing users to interact with the render as it's being created.

The study simply states that Petitioner used an iterative development process for the 3D modeling project. It is not clear whether they closely examined uncertainties, if any uncertainties existed, and if they systematically inquired about potential solutions to resolve uncertainties. Under the discovering technological information test, technological uncertainty exists in situations where the information available in the public domain does not establish the capability or method for developing or improving the business component. Petitioner has been using multiple computer-aided design (CAD) software[30] since 2012 and started using software[31] to create 3D models in 2019. All the software used by Petitioner was and still is commercially available, which allowed them to develop the 3D models; therefore, technological uncertainty did not exist. Additionally, the uncertainties Petitioner might have encountered would be business/project uncertainties rather than configuration uncertainty.

Petitioner must show through their records that each research project had a methodical plan setting forth a series of trials to test a hypothesis, analyze the data, and retest the hypothesis so that the research conducted was part of a process of experimentation in the scientific sense. However, the study does not describe how Petitioner formulated or tested hypothesis, engaged in systematic trial and error or evaluated alternatives, and none of Petitioner's records sufficiently substantiate their entitlement to the Idaho research credit. The Tax Commission found that the 3D Modeling project did not meet the requirements under the IRC and the Treasury Regulations.

[30] AutoCAD LT since 2012, REVIT since 2014, and Lumion since 2020. All are currently in use.
[31] REVIT since 2019 and Lumion since 2020. None used prior to 2019.

CONCLUSION

For tax years 2019 through 2021, the Tax Commission found that none of Petitioner's projects satisfied all the required tests; therefore, the expenditures claimed by Petitioner are not qualified research expenses. The Tax Commission upholds the Notice.

THEREFORE, the Notice of Deficiency Determination dated August 31, 2023, and directed to [redacted] is AFFIRMED. Since Petitioner is a flow-through entity, the additional tax owed flowed through to its shareholders. Therefore, no demand or order for payment is necessary, except for tax year 2021. Petitioner elected to file an affected business entity return for tax year 2021; therefore, Petitioner owes the additional tax. The Bureau added interest to Petitioner's Idaho tax due. The Tax Commission reviewed the addition and found it appropriate and in accordance with Idaho Code section 63-3045.

THEREFORE, the Notice of Deficiency Determination dated August 31, 2023, and directed to [redacted] is AFFIRMED.

IT IS ORDERED that Petitioner pays the following tax and interest:

YEAR	TAX	INTEREST	TOTAL
2018	$0	$0	$0
2019	0	0	0
2020	0	0	0
2021	21,709	1,692	23,401
		TOTAL DUE	$23,401

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 _____ 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]