

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 1-745-191-936
)	
)	
)	DECISION
Petitioners.)	

The Income Tax Audit Bureau (Bureau) at the Idaho State Tax Commission (Tax Commission) issued a Notice of Deficiency Determination (Notice) to

(Petitioners) for tax years 2017 and 2018. Petitioners filed a timely appeal and petition for redetermination of the Notice. Petitioners' representatives participated in an informal hearing.

The primary issue for decision is whether amounts paid by _____ to provide housing, travel, transportation, entertainment, clothing, haircuts, meals, groceries, etc. to Petitioners and their family members are business expenses or nondeductible personal expenses. The Tax Commission has reviewed the file and hereby issues its decision affirming the Bureau's Notice.

Petitioners constructively own 100% of _____ a pass-through entity.¹ claimed business expenses of \$1,266,751 and \$1,707,621 for tax years 2017 and 2018, respectively. The Bureau requested _____ provide documentation supporting the deductibility of the expenditures and the amounts. _____ provided hundreds of pages of QuickBooks reports and bank statements. The Bureau carefully reviewed the documentation provided and found most of the expenses were nondeductible personal, living and family expenses of Petitioners and their

¹ A pass-through entity is one in which the tax attributes (income, deductions, losses, credits) of the entity pass through the entity to the owner(s) of the entity for tax purposes.

family. The Bureau disallowed \$1,162,241 and \$1,622,647 in expenses for tax years 2017 and 2018, respectively.

In short, the Bureau determined Petitioners' deducted expenditures: (1) lacked a business purpose; (2) were not ordinary, necessary, or reasonable in amount; and (3) were nondeductible personal, living, and family expenses. Furthermore, the Bureau determined the disallowed expenditures were distributable income to the S corporation's sole shareholder. See Docket No. 0-698-713-088. Petitioners appealed.

In Docket No. 0-698-713-088, the Tax Commission affirmed the Bureau's disallowance of the expenditures in question. Therefore, in accordance with the Tax Commission's decision in Docket No. 0-698-713-088, the Tax Commission affirms the Bureau's adjustments to Petitioners' Idaho income tax returns.

The Bureau added interest and penalty to the income tax deficiency. The Tax Commission reviewed those additions, found both to be appropriate per Idaho Code sections 63-3045 and 63-3046, and has updated interest accordingly. Interest is calculated through October 16, 2023, and will continue to accrue at the rate set forth in Idaho Code section 63-3045(6) until paid.

THEREFORE, the Notice of Deficiency Determination dated February 24, 2022, is hereby APPROVED, in accordance with the provisions of this decision, and is AFFIRMED and MADE FINAL.

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest.

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$97,190	\$4,860	\$20,234	\$122,284
2018	100,559	5,028	16,627	<u>122,214</u>
				\$244,498

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 _____ 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.
