

**BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of

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██████████

Petitioners.

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DOCKET NO. 1-772-053-504

DECISION

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The Intrastate Income Tax Audit Bureau (Bureau) sent ██████████ (Petitioners) a modified Notice of Deficiency Determination (Notice) for tax years 2020 through 2022. Petitioners protested, disagreeing with the Bureau’s adjustments to their business expenses and bonus depreciation. The Tax Commission has reviewed the matter and hereby upholds the modified Notice issued by the Bureau.

**BACKGROUND**

The Bureau sent Petitioners letters requesting documentation related to their Schedule C construction business for tax years 2020 through 2022. The Bureau requested documentation for the cost of goods sold, car and truck expenses, rental expenses, repairs and maintenance, utilities, fuel, and other miscellaneous items. Petitioners did not respond, so the Bureau sent Petitioners a Notice disallowing all Schedule C expenses for the years in question. Petitioners responded to the Notice by providing some documentation the Bureau requested. In response, the Bureau sent Petitioners a modified Notice to remove some of the 2020 adjustments including tool purchases, and repairs/maintenance on business vehicles. Petitioners did not respond to the modified Notice, so the Bureau acknowledged their original protest and transferred the case to the Tax Commission’s Appeals Unit (Appeals).

Appeals sent letters to Petitioners on July 26, 2024, and August 16, 2024, explaining the appeals process and their right to a hearing. Petitioners did not respond, so the Tax Commission must make its 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 section 6001; Treasury Regulation section 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).

Petitioners provided some documentation for the expenses claimed on their returns, but the majority of requested items have not been substantiated. In review of the documentation provided

to the Bureau, adjustments made in the modified Notice appear to be reasonable. Without additional information, the Tax Commission cannot adjust the Notice further.

**CONCLUSION**

Petitioners were sent a Notice for tax years for 2020 through 2022 disallowing their business expenses. Petitioners then provided some documentation to substantiate expenses related to their tool purchases and repairs/maintenance on business vehicles. A modified Notice was sent to Petitioners to allow for the expenses they were able to document. The Tax Commission has given Petitioners sufficient time to provide the information needed. The Bureau’s decision to allow some expenses on the modified Notice was reasonable and presented a more accurate representation of Petitioners’ Idaho taxable income.

The Bureau added interest and penalty to Petitioners’ 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 modified Notice of Deficiency Determination dated June 25, 2024, directed to [REDACTED]

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>
2020	\$2,246	\$112	\$242	\$2,600
2021	1,956	98	169	2,223
2022	2,655	133	134	<u>2,922</u>
			TOTAL	\$7,745

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

DATED this \_\_\_\_\_ day of \_\_\_\_\_ 2024.

IDAHO STATE TAX COMMISSION

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2024,  
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.

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