

redetermination by the IRS. All documents were dated prior to the Bureau's Billing Letters. None of them indicated a current action with the IRS.

The Bureau reached out multiple times asking for a letter addressed to the Tax Commission protesting the Notices. AIF sent protest letters for all three years and a copy of correspondence from the IRS dated August 7. The letter from the IRS indicated that the original federal audit had been reviewed and that additional information provided did not support an adjustment of the tax owed. AIF's letters to the Bureau stated that a protest should be allowed for arguments and additional documents to be taken into account. He wrote that taxpayers are entitled to show gross income on their return, which includes consideration for business expenses. He concluded by saying that Petitioners have legitimate business expenses that have not been allowed by the IRS and that they have provided proof of those expenses to both the IRS and Idaho.

The Bureau sent letters acknowledging the protests and stating that the matter was being forwarded to the Tax Commission's Appeals Unit (Appeals) for administrative review. On October 15, Appeals sent AIF and Petitioners letters outlining the options for redetermining a protested Notice. On November 14, AIF responded, requesting an informal hearing with a Commissioner.

The hearing was held on December 10, which established a deadline of June 8, 2026, for the Tax Commission to issue a decision.¹ During the hearing, AIF stated that they had sent a request for redetermination of the federal audit results. Appeals requested copies of relevant correspondence AIF and Petitioner had sent to the IRS. On December 12, AIF sent Appeals a copy of a request he had made for Taxpayer Advocate Service² assistance, dated December 11.

¹ Under Idaho Code section 63-3045B(3)(b), the Tax Commission must render a final decision within 180 days after an informal hearing held in accordance with Idaho Code section 63-3045(2)(a).

² The Taxpayer Advocate Service is an independent organization within the IRS, tasked with protecting taxpayers' rights under the Taxpayer Bill of Rights and helping taxpayers resolve problems with the IRS.

On February 10, 2026, Appeals sent an email requesting a status update on the federal redetermination request and an extension of the 180-day deadline.³ AIF provided a waiver, extending the deadline for a final decision to August 11, 2026, but did not provide any additional information regarding the federal redetermination.

On March 26, AIF sent Appeals an email stating that a Taxpayer Advocate had been assigned to the case, and they were continuing to pursue a reconsideration of the federal audit. In reply, Appeals sent an email on the same day requesting a copy of any paperwork documenting the assignment of a Taxpayer Advocate. Appeals sent a subsequent request for this paperwork on April 27. In response to the second request, AIF sent a copy of a letter from the Case Advocate assigned to the matter, dated March 16. The letter indicated that the Advocate would contact AIF by April 21 and expected the case to be resolved by June 9. On April 27, Appeals requested another extension of the 180-day timeline to issue a decision but did not receive a response.

To protect the interests of the State of Idaho, the Tax Commission must render this decision based on available information before having received notification of the final outcome of Petitioners' most recent request for redetermination of the federal audit.

Law & Analysis

Idaho Code section 63-3002 states that Idaho taxable income is to be identical to federal taxable income, except for modifications required or allowed by Idaho law. The IRS increased Petitioners' federal taxable income by changing information reported on Schedules C and D. Generally, the Tax Commission follows a final federal determination whenever a change is made to a taxpayer's federal income tax return. Petitioners requested a reconsideration of the

³ Under Idaho Code section 63-3045B(4), a final decision may be held in abeyance with prior written approval of the taxpayer.

determinations, which was granted and completed, based on the letter from the IRS dated August 7, 2025.

AIF's protest to the Idaho Notices states that the August 7, 2025, IRS letter was "another form response" and none of the additional documents Petitioners had submitted were considered. His request for Taxpayer Advocate assistance also indicates that nobody had reviewed case documents or been assigned for the audit reconsideration. However, the IRS correspondence indicates differently.

The letter, digitally signed by a Revenue Agent, includes the determination, "The information you provided doesn't support the requested adjustment, therefore we're not reducing your assessed tax, penalties or both." Attached to the letter was Form 4549, *Report of Income Tax Examination Changes*, showing no change to Petitioners' taxable income or tax liability from the previous adjustment. Also included was Form 886-A, *Explanation of Items*, which stated "We reviewed the documents you provided and determined they don't support any change to tax liability. The following table lists the documents received with the audit reconsideration request, why they do not change the original determinations, and the relevant issues and workpapers in the original case file." The table contained 20 different documents. Common themes of the comments included documents already being reviewed and considered, having no impact on tax liability, or being insufficient substantiation of additional basis or business expenses.

AIF's protest to the Idaho Notices is predicated on the premise that the IRS did not review and consider documentation. All the documents AIF provided to the Bureau were included in the list of 20 documents shown on Form 886-A. Since no documentation was provided to the Bureau that was not already provided to and reviewed by the IRS and no further information has been

received showing a different conclusion, the Tax Commission determined that Petitioners' Idaho returns for 2019-2021 must be adjusted correspondingly to the federal returns.

The Bureau added interest and penalty to Petitioners' 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

The IRS adjusted Petitioners' 2019, 2020, and 2021 federal tax returns. Petitioners have not met their burden to show that the Notices are incorrect.

THEREFORE, the Notices dated June 11 and July 18, 2025, and directed to [REDACTED] [REDACTED]

[REDACTED] [REDACTED] are hereby UPHELD 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>
2019	\$160,322	\$24,048	\$35,710	\$220,080
2020	71,330	10,700	13,528	95,558
2021	57,641	8,646	9,700	<u>75,987</u>
				<u>\$391,625</u>

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

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

DATED this _____ day of _____ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____, 2026,
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]