

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
)
) DOCKET NO. 1-880-458-240
)
)
) DECISION
)
 Petitioners.)

(Petitioners) protested the Notice of Deficiency Determination (Notice) dated March 16, 2022. The Tax Commission reviewed the matter and hereby issues its final decision upholding the Notice. This means Petitioners need to pay \$45,655 of tax, penalty, and interest for tax years 2018 through 2020. The Tax Commission DEMANDS immediate payment of this amount.

BACKGROUND

During a review of taxpayer information, the Tax Commission’s Tax Discovery Bureau (Bureau) could not locate Petitioners’ Idaho individual income tax returns for tax years 2018, 2019, and 2020. The Bureau determined that Petitioners met the requirements to file Idaho tax returns for the years in question.

The Bureau first contacted Petitioners on January 5, 2022, inquiring about the missing returns. Petitioners responded to the Bureau’s nonfiler letter, recognizing their requirement to file Idaho returns for 2018 through 2020 and stating they would file the missing returns by August 31, 2022. The Bureau sent Petitioners a follow-up letter with a proposed schedule for filing the returns. Petitioners didn’t file returns, so the Bureau prepared returns for them and issued a Notice.

In calculating Petitioners' Idaho taxable income for the years in question, the Bureau included wages¹, income from the sale of stocks¹, nonemployee compensation², and self-employment income and expenses. Petitioners reported self-employment income and expenses on Schedule C for 2012-2014 under the name _____ The Bureau estimated Petitioners' self-employment income based on wages reported to the Idaho Department of Labor by _____ allowed a deduction for payroll expense related to those wages, and estimated other self-employment expenses based on Schedule C filings for 2013 and 2014.

On May 18, 2022, Petitioners filed via email a protest of the Notice "for years 2018, 2019, and 2020 secondary to the sole proprietorship for _____ and the estimates that were used for the assessment in those years." They stated their income from the business was significantly less than the estimates. The Bureau acknowledged Petitioners' protest and made an additional request for the missing Idaho individual income tax returns. Petitioners requested multiple postponements of time to file the missing returns to deal with health issues of a family member. When returns did not arrive after several extensions, the Bureau forwarded the matter to the Tax Commission's Appeals unit (Appeals) for administrative review.

On October 6, 2022, Appeals sent Petitioners a letter outlining two options for redetermining a protested Notice. Petitioners did not respond. Petitioners have had more than adequate time to submit their returns but have not done so. Therefore, the Tax Commission decided this matter based on the information currently available.

¹ 2020 only

² 2018 only

LAW & ANALYSIS

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.

The information gathered by the Bureau and used to calculate Petitioners' Idaho taxable income does not clearly show that Petitioners received gross income above the threshold amounts for filing returns for tax years 2018-2020. However, Petitioners did not express disagreement with the Bureau's conclusion that they were required to file Idaho returns for the years in question. Rather, they argued that the estimated income and expenses were incorrect.

The Tax Commission realizes that Petitioners may have had different business income and expenses than those shown on the Notice. However, deductions are a matter of legislative grace, and the taxpayer bears the burden of showing that each deduction is allowable by statute. *New Colonial Ice Co. v. Helvering*, 292 US. 435, 54 S.Ct. 788 (1934); *Higgins v. C.I.R.*, T.C. Memo. 1984-330, (1984). The burden rests upon the taxpayer to disclose its receipts and claim its proper deductions. *United States v. Ballard*, 535 F.2d 400 (1976). If a taxpayer is unable to provide adequate proof of any material fact upon which a deduction depends, no deduction is allowed, and the taxpayer must bear its misfortune. *Burnet v. Houston*, 283 US. 223, 51 S.Ct. 413 (1931).

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. *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)). The Tax Commission requires Petitioners to provide adequate evidence to establish that the amount asserted in the Notice is incorrect. Petitioners have failed to do so. They have 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 2018, 2019, and 2020 are incorrect. Therefore, the Tax Commission finds the returns prepared by the Bureau are a reasonable representation of Petitioners' Idaho taxable income and related tax due.

CONCLUSION

The Bureau determined that Petitioners were required to file Idaho income tax returns for 2018, 2019, and 2020 and prepared returns for them. Petitioners did not show that the returns the Bureau prepared were incorrect. The Tax Commission reviewed these returns and found them reasonable based on the information available. Therefore, the Tax Commission upholds the Notice.

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.

THEREFORE, the Notice dated March 16, 2022, and directed to

is hereby 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>
2018	\$15,720	\$3,930	\$2,614	\$22,264
2019	10,035	2,509	1,128	13,672
2020	7,290	1,823	606	9,719
			TOTAL DUE	<u>\$45,655</u>

Interest is calculated through October 23, 2023.

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.
