

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

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|--|---|--------------------------|
| In the Matter of the Protest of |) | |
| |) | DOCKET NO. 1-908-630-528 |
| ██████████ ████ ██████████ ████ ██████████ |) | |
| |) | |
| Petitioners. |) | DECISION |
| _____ |) | |

██████████ ████ ██████████ ████ ██████████ (Petitioners) protested the Notice of Deficiency Determination (Notice) dated February 14, 2024. Petitioners disagreed with the Income Tax Audit Bureau’s (Audit) adjustments to their Idaho individual income tax returns for tax years 2020 through 2022. The Idaho State Tax Commission (Tax Commission) reviewed the matter and hereby upholds the Notice for the reasons stated below.

BACKGROUND

Petitioners filed joint Idaho individual income tax returns for tax years 2020 through 2022. Audit reviewed Petitioners’ deductions for Energy Efficiency Upgrades (EEU), Alternative Energy Devices (AED), Health Insurance Premiums (HIP), and Medical and Dental expenses. Audit notified Petitioners of the review and requested information related to the deductions they claimed.

Petitioners responded, answering questions about the AED but providing no documentation. Petitioners also provided a large amount of information regarding medical expenses, but very little to show the expenses were paid. Audit reviewed the documentation and determined it did not support the EEU, AED, and HIP subtractions or the full amount of Medical and Dental expenses claimed. Therefore, a Notice was issued disallowing the deductions and allowing the standard deduction as it became more favorable for Petitioners.

Petitioners protested the Notice arguing that they provided all the receipts they had, and some are no longer available due to so much time passing. They continue by stating they were unaware that they needed to turn in their old wood stove to Department of Environmental Quality (DEQ) and cannot find anywhere that states it's a requirement. Audit acknowledged the protest and sent the file to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners a letter outlining their options for redetermining a protested Notice. There was no response. The Tax Commission has reviewed the available information and hereby issues its decision.

LAW AND ANALYSIS

Petitioners claimed EEU deductions in 2020 and 2022. Idaho Code section 63-3022B defines the EEU deduction:

63-3022B.DEDUCTION FOR ENERGY EFFICIENCY UPGRADES. (1) An individual taxpayer may deduct from taxable income an amount actually paid or accrued by the individual taxpayer during the taxable year for the actual installation of energy efficiency upgrade measures within any existing residence. **As used in this section, "existing residence" means any residence in the state of Idaho that serves as the primary place of residence of the individual taxpayer in being, under construction, or subject to an outstanding legal building permit on or before January 1, 2002.**

(2) As used in this section:

(a) "Energy efficiency upgrade measure" means an energy efficiency improvement to the building envelope or duct system that meets or exceeds the minimum value for the improved component established by the version of the international energy conservation code (IECC) in effect in Idaho during the taxable year in which the improvement is made or accrued.

(b) "Energy efficiency upgrade measure" includes:

- (i) Insulation that shall be added to existing insulation not in replacement of existing insulation;
- (ii) Windows that may replace less efficient existing windows;
- (iii) Storm windows;
- (iv) Weather stripping and caulking; and
- (v) Duct sealing and insulation. Duct sealing requires mechanical fastening of joints and mastic sealant. **Emphasis added.**

Petitioners provided no information regarding the “energy efficiency upgrade measure” they made or any documentation to show the cost of such upgrade. Additionally, according to the Canyon County Assessor’s public website Petitioners’ home was not in existence prior to January 1, 2002. Therefore, the home is disqualified from eligibility for the EEU deduction. The Tax Commission finds that Audit’s disallowance of the deduction on Petitioners’ 2020 and 2022 Idaho tax returns to be appropriate.

Petitioners claimed AED deductions in 2020 through 2022. Idaho Code section 63-3022C defines the AED deduction:

63-3022C.DEDUCTION FOR ALTERNATIVE ENERGY DEVICE AT RESIDENCE. (1) An individual taxpayer who installs an alternative energy device to serve a place of residence of the individual taxpayer in the state of Idaho may deduct from taxable income the following amounts actually paid or accrued by the individual taxpayer: forty percent (40%) of the amount that is properly attributable to the construction, reconstruction, remodeling, installation or acquisition of the alternative energy device in the year when such device is completed or acquired and is placed in service by the taxpayer; and twenty percent (20%) per year thereafter for a period of three (3) succeeding years; provided, however, that said deduction shall not exceed five thousand dollars (\$5,000) in any one (1) taxable year.

(2) An individual taxpayer who purchases a residence in the state of Idaho served by an alternative energy device for which none or less than all of the total deduction allowable under this section has been taken, may take the deduction specified in this section, or the unused balance of the deduction.

(3) **As used in this section, "alternative energy device" means any system or mechanism or series of mechanisms using solar radiation, wind or geothermal resource as defined in section 42-4002, Idaho Code, primarily to provide heating, to provide cooling, to produce electrical power, or any combination thereof. Alternative energy device includes a fluid to air heat pump operating on a fluid reservoir heated by solar radiation or geothermal resource. Alternative energy device shall also include either a natural gas heating unit, or a propane heating unit, or a wood burning stove which meets the most current environmental protection agency certification, or a pellet stove which meets the most current industry and state standards, and which natural gas heating unit, or propane heating unit, or wood burning stove which meets the most current environmental protection agency certification, or pellet stove which meets the most current industry and state standards is used to replace during the same tax year a wood burning stove designed for residential heating and that does not meet environmental protection agency requirements for certification, provided the wood burning stove is surrendered**

to the department of environmental quality or its agent for destruction in accordance with applicable federal and state rules. Emphasis added.

Petitioners indicated on their 2020 Idaho tax return that they were claiming the AED deduction for the installation of a furnace. Petitioners did not provide any documentation related to the purchase of the furnace. Petitioners indicated on their 2021 and 2022 Idaho tax returns that they were claiming the AED deduction for the installation of a pellet stove. Again, they provided no documentation for purchase of the pellet stove. A natural gas heating unit or a pellet stove may qualify for an AED if it replaces a wood burning stove meeting specific criteria and that wood burning stove is surrendered to the proper government agency for destruction. Petitioners indicated in their response to Audit that they did not replace a wood burning stove. However, in their protest they maintain that they installed an energy saver system furnace and did not know they needed to turn in their old furnace and wood stove to the DEQ. It is unclear whether Petitioners possessed a wood burning stove prior to 2020. But what is clear is the instruction booklet for filing an individual income tax return, which states that the old stove must be surrendered to the DEQ. Therefore, the Tax Commission finds Audit's disallowance of the AED deduction on Petitioners' 2020 through 2022 Idaho tax returns is appropriate.

Petitioners claimed HIP deductions in 2022. Idaho Code section 63-3022P defines the Health Insurance Premiums deduction:

63-3022P. HEALTH INSURANCE COSTS. With respect to an individual taxpayer, an amount equal to the amount paid by the taxpayer during the taxable year for insurance which constitutes medical care for the taxpayer, the spouse or dependents of the taxpayer which is not otherwise deducted or accounted for by the taxpayer for Idaho income tax purposes shall be allowed as a deduction for Idaho taxable income. As used in this section, "insurance which constitutes medical care" includes any hospital or medical policy or certificate, any subscriber contract, policies or certificates of insurance for specific disease, hospital confinement indemnity, accident-only, dental, vision, single employer self-funded coverage, meaning that portion of health insurance which is the retained risk of the employer, student health benefits only or coverage for

medical care or treatment issued as a supplement to liability insurance. **Employers shall provide to the employee a statement as to whether an employee's contribution for health insurance has been excluded from taxable income. Emphasis added.**

Idaho Code allows for a deduction for Idaho taxable income, the amount paid for insurance which constitutes medical care for the taxpayer, the spouse or dependents of taxpayer which is not otherwise deducted. The documents Petitioners provided to support the deduction show the premiums are from an employer sponsored health program. Since the premiums were paid with pre-tax income, the HIP deduction is disallowed for tax year 2022.

Petitioners claimed itemized deductions on their 2020 and 2021 Schedule A consisting mostly of Medical and Dental expenses. The amounts claimed could not be verified with the information provided by Petitioners. The expenses were adjusted to the substantiated amounts; which reduced Petitioners' itemized deductions making the standard deduction more favorable.

CONCLUSION

Petitioners claimed the EEU deduction in 2020 and 2022, however they didn't provide any documentation and their home was built in 2004 making it ineligible to receive this deduction. Petitioners claimed AED deduction in 2020 through 2022, again no documentation was provided so this deduction was disallowed. Petitioners claimed HIP in 2022 and the documents provided show the premiums are from an employer sponsored health program. Since the premiums were paid with pre-tax income, the HIP deduction is disallowed. Petitioners claimed medical and dental expenses on the 2020 and 2021 Schedule A. They provided some insurance statements, bills, and receipts but little documentation showing they paid the expenses. When medical and dental expenses are reduced to the amount adequately substantiated, it's more beneficial for Petitioners to use the standard deduction.

Audit added interest and penalty to Petitioners' tax deficiency. The Tax Commission reviewed those additions and found them to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

THEREFORE, the Notice dated February 14, 2024, and directed to [REDACTED] [REDACTED] [REDACTED] [REDACTED] is hereby AFFIRMED and MADE FINAL.

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest calculated per Idaho Code section 63-3045:

| <u>YEAR</u> | <u>TAX</u> | <u>PENALTY</u> | <u>INTEREST</u> | <u>TOTAL</u> |
|-------------|------------|----------------|-----------------|--------------|
| 2020 | \$694 | \$10 | \$74 | \$778 |
| 2021 | 796 | 0 | 69 | 865 |
| 2021 | \$1,202 | 0 | <u>61</u> | <u>1,263</u> |
| | | | TOTAL | \$2,906 |

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 _____ 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.
