

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 2-069-955-584
)	
)	
Petitioners.)	DECISION
_____)	

This case arises from a timely protest of a Notice of Deficiency Determination (Notice) issued to (Petitioners) for taxable year 2018. The Idaho State Tax Commission (Commission) after a review of the matter upholds the Notice issued to Petitioners as modified by the originating division.

THEREFORE, the Notice dated February 24, 2022, modified March 29, 2022, and directed to Petitioners is AFFIRMED as modified.

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	\$1,023	\$51	\$145	\$1,219

Interest is computed through April 26, 2023.

DEMAND for immediate payment of the foregoing amount is hereby made and given.

BACKGROUND

Petitioners filed their 2018 Idaho income tax return claiming a deduction for an Idaho energy efficiency upgrade and a deduction for an Idaho alternative energy device. The Income Tax Audit Bureau (Audit) selected Petitioners’ Idaho individual income tax return to review the deductions claimed. Audit found that both deductions were for the same geothermal heat pump system and installation.

Audit issued Petitioners a Notice that disallowed the deduction for an energy efficiency upgrade as not qualifying. Petitioners protested the Notice stating, “I installed a water activated

furnace and insulated duct work in a 1976 home. The original furnace was replaced in 2018 for a cost of \$18,000. It was installed by Carter Systems.” Petitioners included in their protest a copy of their invoice showing two-line items: \$14,800 for labor and materials to install a geothermal heat pump system and \$3,200 for labor and materials to install, seal, and insulate the main trunk line.

Audit reviewed Petitioners’ protest and modified the Notice. Audit allocated the referenced costs as follows: \$14,800 as an alternative energy device deduction for the geothermal heat pump system and \$3,200 as an energy efficiency upgrade deduction for the duct sealing and the insulation. Audit sent Petitioners the modified Notice which allowed only an \$18,000 deduction for the purchase and installation of the geothermal heat pump system. Petitioners did not withdraw their protest, so Audit transferred the matter to the Commission’s Tax Appeals Unit (Appeals) for an administrative review.

Appeals sent Petitioners a letter containing two methods for redetermining a protested Notice. Petitioners did not respond to the redetermination letter, nor did they provide any additional information. The Commission decided the matter based upon available information.

LAW AND ANALYSIS

Idaho Code section 63-3022C allows a deduction for the installation of an “alternative energy device” for service in a place of residence in the state of Idaho. A taxpayer may deduct from taxable income the following amounts actually paid or accrued by taxpayers: 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 20% per year thereafter for a period of three succeeding years provided; however, the deduction shall not exceed \$5,000 in any one taxable year. An “alternative energy device” is defined as any system or mechanism or series of

mechanisms using solar radiation, wind or geothermal resource as defined in Idaho Code section 42-4002.

Idaho Code section 63-3022B allows taxpayers a deduction for the actual installation of energy efficiency upgrade measures within any existing residence. An existing residence means any residence in the state of Idaho that serves as the primary place of residence of taxpayers in being under construction, or subject to an outstanding legal building permit on or before January 1, 2002. Energy efficiency upgrade measure includes insulation that is added to existing insulation, not in replacement of existing insulation; windows that replace less efficient existing windows; storm windows; weather stripping and caulking; and duct sealing and insulation.

Because Petitioners' purchase and installation of the geothermal heat pump system was a combination of both an "alternative energy device" and an "energy efficiency upgrade", Petitioners should have allocated the cost between the two deductions. This is the adjustment Audit made and the Commission finds it appropriate.

CONCLUSION

Therefore, the Commission upholds the modified Notice issued to Petitioners allocating the cost they incurred for the purchase and installation of a geothermal heat pump between the alternative energy device deduction and the energy efficiency upgrade deduction. Audit added penalty and interest to Petitioners' income tax liability. The Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046.

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.
