

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

██████████

Petitioner.

DOCKET NO. 2-075-616-256

DECISION

The Intrastate Income Tax Audit Bureau (Bureau) sent ██████████ (Petitioner) a Notice of Deficiency Determination (Notice) for tax years 2020 through 2022. Petitioner protested, disagreeing with the adjustments to his Net Operating Loss (NOL) and business/farming deductions. Documentation was exchanged, and the Bureau sent Petitioner a modified Notice, reducing the additional tax, interest, and penalties, from \$11,951 to \$7,819. The Tax Commission has reviewed the matter and hereby upholds the modified Notice issued by the Bureau.

BACKGROUND

The Bureau conducted an examination of Petitioner's 2020 through 2022 Idaho income tax returns, requesting documentation for his farming and business activities reported on federal form Schedule C. Petitioner is in the business of car restoration and repairs and conducts much of the activity at his property in ████████ Idaho. He sells ████████ at local swap meets/events and has an inventory of ████████████████████ Petitioner also claims to operate a small farm on his property. In the past, he has sold a variety of crops like corn and hay, and plans on selling certified weed free hay in the future. The Bureau reviewed the documentation provided and sent Petitioner a Notice, disallowing many deductions related to his business/farming activity and NOL. Petitioner protested, and provided additional explanations for the business/farming activity and the NOL. The Bureau reviewed the additional information and allowed a portion of the NOL which removed tax year 2020 from the Notice. The Bureau continued to disallow many deductions related

to Petitioner's Schedule C activities, breaking down the reason for disallowance into categories: Personal expenses, cost of goods sold adjustments, unknown/unreadable receipt, incomplete mileage log, and incorrect tax year. Petitioner requested his case to be transferred to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals and Petitioner participated in an informal hearing to discuss the case further. During the hearing, Petitioner discussed why he believed his farming activity should be deductible, and expensing versus capitalizing assets in his car related activities. Petitioner also provided handwritten mileage logs for his F-350 truck. The Tax Commission has reviewed all the relevant information and presents the following analysis.

LAW AND ANALYSIS

Schedule C Expenses:

Farming Activity:

During the hearing, Petitioner explained that he participated in five or six different activities that were all reported on his Schedule C under one Limited Liability Company (LLC) called "██████████". This is so he would not have to fill out five or six different Schedule C's and a Schedule F for the farming activity. The Bureau determined that while the different ████████ activities are similar enough to be under one LLC, farming needed to be reported separately. Petitioner disagreed with this, stating that combining multiple activities into one LLC is "completely legal." Treasury Regulation 1.183-1(d)(1) explains that multiple undertakings of a taxpayer may be treated as one activity if the undertakings are sufficiently interconnected. The most important factors in making this determination are the degree of organizational and economic interrelationship of the undertakings, the business purpose served by carrying on the undertakings separately or together, and the similarity of the undertakings. Having the undertakings on the same

property is not enough to be sufficiently interconnected. Selling, operating, and fabricating [REDACTED] are related enough to be under one activity. However, farming is not sufficiently related to [REDACTED] activities. Under further analysis, it does not appear that Petitioner was actively operating a farm during the years in question. Petitioner had not sold a farm product since 2015. While Petitioner described the different challenges he faced when attempting to operate the farm, the Tax Commission remains unconvinced that the efforts rose above personal property upkeep, not allowable under Treasury Regulation section 1.262-1(b)(3). Therefore, the Tax Commission affirms the Bureau's determination that Petitioner's farming expenses were personal, and not deductible.

Cost of Goods Sold:

The Bureau asserted that Petitioner buying [REDACTED] to refurbish for future sale and the supplies to do so are not immediately deductible under "bonus depreciation" and "supplies expense." The Bureau's position is that these expenses are only deductible as an increased basis against the total sales price, or factored into the cost of goods sold. Petitioner argues the [REDACTED] and parts to restore them are part of his inventory purchases, which is deductible under bonus depreciation. Internal Revenue Code (IRC) section 167(a) states:

There shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)—

1. of property used in the trade or business, or
2. of property held for the production of income.

[REDACTED] that were bought for the purpose of fabrication/repair for future profit are not being used for the production of income. They are not being leased, rented, or used for driving, which would cause wear and tear. Non-depreciable assets will have an adjusted basis at the time of sale. Therefore, bonus depreciation and improvement expenses claimed for non-depreciable assets are disallowed.

Petitioner also argued for the depreciation of his [REDACTED] [REDACTED] [REDACTED]. There appears to be disagreement among the Bureau and Petitioner about the status/purpose of the vehicle. The Bureau believes the [REDACTED] is not for sale, and it is exclusively for personal use. Petitioner states the vehicle is for sale for the right price, and he also uses it to show at expos and car meets to advertise his business. If Petitioner's claims are true, the [REDACTED] would be considered a depreciable asset, as it is being used for the production of income. However, Petitioner has not produced an acceptable mileage or business usage log for the [REDACTED]. Therefore, neither bonus, nor regular MACRS depreciation is allowed for the [REDACTED].

Mileage Logs:

Treasury Regulation section 1.274-5T(c) describes the substantiation requirements for vehicles and listed property. In general, a taxpayer must maintain an: "account book, diary, statement of expense, trip sheet, or similar record in such a manner that recording of an element of an expenditure or use is made at or near the time of the expenditure or use." Typically, the log must contain 1) the amount of each separate expenditure; 2) the amount of each use for business purposes and the total use during the tax period; 3) the date of the use; and 4) the business purposes of the expense or use. The documentation provided during the audit and appeals process does not meet the requirements of the IRC. Petitioner provided estimates for fuel expenses and business use of his vehicles, but the documentation appears to be limited. The Tax Commission has reviewed all the relevant information and hereby upholds the decision to disallow the depreciation and car/truck expenses claimed.

CONCLUSION

The Bureau reviewed Petitioner's 2020 through 2022 income tax returns and disallowed many deductions related to his farming and business activities. Petitioner insisted that he was in

the business of farming and his business expenses should be allowed as they were originally claimed. The Tax Commission has reviewed Petitioner's arguments and documentation and finds no compelling reason to further modify the Notice.

THEREFORE, the modified Notice of Deficiency Determination dated June 4, 2024, directed to [REDACTED] is hereby AFFIRMED and MADE FINAL.

IT IS ORDERED for Petitioner to pay the following tax, interest, and penalty:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$2,683	\$134	\$232	\$3,049
2022	4,430	222	224	<u>4,876</u>
			TOTAL:	\$7,925

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

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

DATED this _____ day of _____ 2025.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____, 2025,
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]

