

1 individuals so that adjusted gross income reported to the IRS shall be the identical sum reported to
2 Arizona, subject only to modifications set forth in Title 43 of the Arizona Revised Statutes." Under this
3 statute, Arizona taxpayers generally may deduct itemized deductions calculated under the Internal
4 Revenue Code on their Arizona income tax return. However, "Nothing contained in [Title 43] shall be
5 construed to require a taxpayer to deduct an expense item more than once in computing Arizona taxable
6 income." A.R.S. § 43-102.

7 Appellants first claimed \$5,778 in mortgage interest, as allowed, on line 10 of their federal
8 Schedule A form. Appellants then claimed the same mortgage interest when calculating their home office
9 business expense as a miscellaneous itemized deduction on line 20 of the form.¹ As clearly explained
10 on page 19 of I.R.S Publication 587 addressing the "Business Use of Your Home,"

11 "Although you generally deduct expenses for the business use of your home on line 20 of
12 Schedule A (Form 1040), do not include any deductible home mortgage interest on that
13 line. Instead, deduct both the business and nonbusiness parts of this interest on line 10
14 or 11 of Schedule A."

15 Appellants argue that they could have claimed other items of expense, such as utilities, taxes,
16 etc., under their home office deduction but chose to claim only the home mortgage interest. As
17 previously established, Appellants are not entitled to claim their mortgage interest as a home office
18 deduction, and they have failed to claim or substantiate any other items of expense within the four-year
19 statute of limitations period allowed under A.R.S § 42-1106.

20 Accordingly, the Board finds that the Department properly disallowed the miscellaneous itemized
21 deduction. Therefore, Appellants are liable for the tax assessed. Further, A.R.S. § 42-1123(C) provides
22 that if the tax "or any portion of the tax is not paid" when due "the department shall collect, as a part of the
23 tax, interest on the unpaid amount" until the tax has been paid." Therefore, Appellants are liable for the
24 interest assessed.

25 ¹ The miscellaneous itemized deduction allowed on the federal Schedule A form is limited to two percent of Appellants' federal adjusted gross income reported on line 35 of their federal 1040 income tax return. Appellants calculated their deduction of \$3,161 by adding the \$5,778 of reported home office expenses (reported on line 20 of Schedule A), which Appellants concede is their home mortgage interest, and a \$25 safe deposit box charge and then subtracting the two percent limitation of \$2,642.

