

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
) DOCKET NO. 15254
[REDACTED],)
) DECISION
)
Petitioners.)
)
)
_____)

On October 6, 2000, the staff of the Income Tax Audit Bureau of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayers), proposing additional income tax and interest for the taxable year 1999 in the total amount of \$1,935.

On November 27, 2000, the taxpayers filed a timely appeal and petition for redetermination. The taxpayers did not request a hearing. They preferred a redetermination based on the facts presented on their return and in their protest letter. The Tax Commission, having reviewed the file, hereby issues its decision.

The Income Tax Audit Bureau (Bureau) reviewed the taxpayers' 1999 Idaho individual income tax return and found the taxpayers did not add back all the state income taxes claimed on their Schedule A – Itemized Deductions. The Bureau adjusted the taxpayers' return and sent the taxpayers a Notice of Deficiency Determination. The taxpayers protested the Bureau's adjustment stating it was their understanding that they did not have to pay taxes to Idaho on money earned in another state. The amount adjusted was taxes paid to New York in 1999.

Internal Revenue Code (IRC) section 164 provides for the deduction of certain taxes paid or accrued. State and local income taxes are included as deductible taxes. Idaho Code section 63-3002 states the intent of the Idaho Income Tax Act, insofar as possible, is to make the provisions of the Idaho act identical to the provision of the IRC relating to the measurement of taxable income. However, all is subject to modifications contained in Idaho law.

Idaho Code section 63-3022(a) and (k) state two of the modifications found in the Idaho law.

(a) Add any state taxes, measured by net income, paid or accrued during the taxable year adjusted for state tax refunds used in arriving at taxable income. (Underlining added.)

(k) In the case of an individual, there shall be allowed as a deduction from gross income either (1) or (2) at the option of the taxpayer:

(1) The standard deduction as defined in section 63, Internal Revenue Code.

(2) Itemized deductions as defined in section 63 of the Internal Revenue Code except state income taxes as specified in section 164 of the Internal Revenue Code. (Underlining added.)

Therefore, all state income taxes deducted as allowed by IRC section 164 must be added back to arrive at Idaho taxable income.

The taxpayers implied that the state of Idaho is taxing income earned while they were residents of another state. The Tax Commission disagrees. The taxes the taxpayers are deducting were based on income earned in the previous year before the taxpayers moved to Idaho. The taxpayers filed an Idaho part-year resident return for 1998. None of the income from the other state was taxed by Idaho. Not allowing a deduction for state taxes paid on income from a previous year does not constitute taxing income reported to another state.

Nevertheless, the Idaho Code does not allow the deduction of state income taxes in the determination of Idaho taxable income. Therefore, the Tax Commission must uphold the Bureau's determination.

WHEREFORE, the Notice of Deficiency Determination dated October 6, 2000, is hereby APPROVED, AFFIRMED, AND MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayers pay the following tax, penalty and interest:

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
1999	\$1,837	\$98	\$1,935

LESS AMOUNT REMITTED (\$1,935)
BALANCE DUE \$ 0

Since the taxpayers have paid the deficiency, a DEMAND for payment is not necessary.

An explanation of the taxpayers' right to appeal this decision is included with this decision.

DATED this ____ day of _____, 2001.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this ____ day of _____, 2001, 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:

[REDACTED]
[REDACTED]
[REDACTED][REDACTED]

Receipt No. [Redacted]

ADMINISTRATIVE ASSISTANT 1