

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 15873
[Redacted],)	
)	DECISION
Petitioner.)	
_____)	

This case arises from a timely protest of a State Tax Commission staff (staff) decision adjusting property tax reduction benefits for 2001. This matter was submitted for a decision based on the documents in the file. The State Tax Commission has reviewed the file and makes its decision based on the file.

The amount of property tax reduction depends on the household income--the greater the income, the smaller the benefit. The staff adjusted the petitioner's eligibility for property tax reduction benefits by denying his benefit. The petitioner submitted a timely appeal.

[Redacted] (petitioner) filed a property tax reduction application on or about April 11, 2001. During review of the petitioner's application and his accompanying federal income tax return, the staff discovered the petitioner had liquidated annuities during the year. The taxable amount of the distributions was included in federal adjusted gross income. However, the nontaxable portion was not listed in the application. The staff sent the petitioner a letter advising him the staff intended to adjust the income total by adding the nontaxable portion of the annuities to total income. The petitioner appealed the adjustment.

All property within the jurisdiction of this state is subject to property taxes. A claimant who qualifies for property tax reduction is given a benefit for a portion of the property taxes on the dwelling he/she owns and occupies. That benefit is in the form of a payment (either total or partial) of the applicant's property taxes. The payment is funded by the general state sales taxes.

Income is defined differently for the property tax reduction program than it is described in the income tax code. Income for property tax reduction benefits purposes is defined in Idaho Code § 63-701(5) as follows:

(5) **"Income" means the sum of federal adjusted gross income** as defined in the internal revenue code, as defined in section 63-3004, Idaho Code, and to the extent not already included in federal adjusted gross income, alimony, support money, income from inheritances, nontaxable strike benefits, **the nontaxable amount of any individual retirement account, pension or annuity**, (including railroad retirement benefits, all payments received under the federal social security act, state unemployment insurance laws, and veterans disability pensions and compensation, excluding rollovers as provided in section 402 or 403 of the internal revenue code), nontaxable interest received from the federal government or any of its instrumentalities or a state government or any of its instrumentalities, worker's compensation and the gross amount of loss of earnings insurance. It does not include capital gains, gifts from nongovernmental sources or inheritances. To the extent not reimbursed, cost of medical care as defined in section 213(d) of the internal revenue code, incurred by the household may be deducted from income. . . . (Emphasis added.)

The calculation of income starts with federal adjusted gross income and, thereafter, makes certain additions and deductions. The nontaxable portion of annuities is specifically required to be included in income. The only exception is if an annuity is "rolled over" as provided in section 402 or 403 of the Internal Revenue Code. The value of an annuity that is transferred from one financial vehicle to another does not qualify as a rollover according to the Internal Revenue Code. The income total is used to establish the benefit amount to be paid on behalf of a qualified applicant.

The staff determined the petitioner received gross distributions of annuities in the amount of \$94,480. That amount was shown on line 16a of the petitioner's federal income tax return as annuity distributions. The petitioner furnished a copy of a letter he wrote to a financial services company wherein he explained the two annuities that he had liquidated were merely return on investment. He said the money used to purchase the annuities (which were cashed less than two years later at a loss)

came from savings accounts and the proceeds from the sale of a home.

The staff examined the 1099-R federal forms issued to the petitioner and noted that one of the annuities had been a rollover as provided in the Internal Revenue Code and should not be included in the petitioner's household income for property tax reduction purposes. The other annuity was liquidated.

On October 16, 2001, the petitioner met with [Redacted] of the State Tax Commission. At that time, the petitioner again explained his position regarding the inclusion of money that had already been taxed in prior years as income for the year 2000. However, property tax reduction benefits are not federal or state income taxes – they are payment of property taxes based on certain qualifying factors including income.

Pursuant to the definition of income as stated in Idaho Code § 63-701(5), the nontaxable portion of the annuities the petitioner liquidated during 2000, although not included in his taxable income for tax purposes, must be included in his income for property tax reduction purposes. As a result, the petitioner's income for property tax reduction benefits exceeds the amount allowed for him to qualify to receive benefits for 2001. The petitioner's application must be denied.

The State Tax Commission is aware there is some potential this decision could cause a hardship to the property tax reduction applicant in certain circumstances. The proper jurisdiction to handle such hardship situations falls with the county commissioners pursuant to Idaho Code § 63-711.

WHEREFORE, the decision of the State Tax Commission's staff to deny property tax reduction benefits for 2001 is APPROVED, AFFIRMED, and MADE FINAL.

An explanation of the petitioner's right to appeal this decision is enclosed with this decision.

DATED this _____ day of _____, 2001.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that I have on this _____ day of _____, 2001, served a copy of the within and foregoing DECISION by sending the same by United States mail, postage prepaid, in an envelope addressed to:

[Redacted]

ADMINISTRATIVE ASSISTANT 1