

**BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of	)	
	)	DOCKET NO. 15144
[Redacted],	)	
	)	DECISION
Petitioners.	)	
_____	)	

On September 29, 2000, the Income Tax Audit Bureau (Bureau) of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayers), proposing additional individual income tax and interest in the amount of \$1,226 for 1997.

The taxpayers filed a timely appeal and petition for redetermination. They did not request a conference. The Tax Commission has reviewed the file, is advised of its contents, and hereby issues its decision.

The Bureau selected the taxpayers' 1997 Idaho income tax return for review. The Idaho return was timely filed and included the first two pages of their federal return. No federal schedules were attached. The taxpayers received a 1997 state income tax refund in the amount of \$1,283.

[Redacted]. [Redacted]. [Redacted]. The Bureau wrote a letter to the taxpayers asking them to provide a copy of their federal Schedule A and verification of deposits to their federal and Idaho medical savings accounts.

The taxpayers sent back the following:

- A copy of a form from U.S. Bank National Association showing a savings account in the name of [Redacted] for 1997 with total contributions of \$0.00, withdrawals of \$2,160.74, and interest paid of \$41.54;
- A copy of a form from U.S. Bank National Association showing a savings account in the name of [Redacted] for 1997 with total contributions of \$0.00, withdrawals of

\$2,160.52, and interest paid of \$41.53;

- A copy of the front page of the taxpayers' 1997 Form 1040; and,
- A copy of the taxpayers' federal Form 8853, "Medical Savings Accounts and Long-Term Care Insurance Contracts," showing medical savings account contributions of \$4,000 during 1997, a medical savings account deduction of \$4,000 and distributions of \$64.23.

Because the information did not dispute the federal report, a Notice of Deficiency Determination was issued, which the taxpayers appealed. [Redacted] wrote a note across the schedule of audit changes the Bureau had provided. She said the increase in the amount of federal income was incorrect because it was social security. She listed two checks that were dated in 1999 and 2000. The note said, "We expect credit for MSA we have overpaid as we did the IRS." A second note said the taxpayers were presently out of town and did not expect to return until May of 2001. They said they would look for the records at that time.

The Bureau asked the taxpayers to provide a copy of their final federal determination of federal adjusted gross income, the final federal determination of itemized deductions, and verification of their deposit of \$4,000 in both an Idaho medical savings account and a federal medical savings account. After allowing considerable time for the taxpayers to return home and locate their records, the taxpayers' file was transferred to the Legal/Tax Policy Division for administrative review. The taxpayers did not respond to a letter advising them of their appeal rights. They submitted no additional information.

Idaho Code § 63-3002 provides:

**Declaration of intent.** It is the intent of the legislature by the adoption of this act, insofar as possible to make the provisions of the Idaho act identical to the provisions of the Federal Internal Revenue Code relating to the measurement of taxable income, to the end that

the taxable income reported each taxable year by a taxpayer to the internal revenue service shall be the identical sum reported to this state, subject only to modifications contained in the Idaho law; . . .

The intent of the Idaho Legislature is to follow the federal determination of income subject only to modifications contained in Idaho law. Federal records show the IRS made adjustments to the taxpayers' 1997 federal income tax return resulting in additional federal adjusted gross income.

To determine Idaho income tax, Idaho Code directs a taxpayer to begin with federal adjusted gross income and adjust according to modifications contained in Idaho law. Idaho Code § 63-3022K allows a medical savings account deduction as follows:

**63-3022K. Medical savings account.** (1) For taxable years commencing on and after January 1, 1995, **annual contributions** to a medical savings account not exceeding two thousand dollars (\$2,000) for the account holder and interest earned on a medical savings account shall be deducted from taxable income by the account holder, if such amount has not been previously deducted or excluded in arriving at taxable income. For married individuals the maximum deduction shall be computed separately for each individual. (Emphasis added.)

First, the taxpayers claimed a deduction in their federal return for a medical savings account, which reduced their federal adjusted gross income by \$4,000, then they deducted \$4,000 from the federal adjusted gross income figure in their Idaho return. Neither deduction was substantiated. Both the Internal Revenue Code and the Idaho tax code allow up to \$4,000 per couple as a deduction from taxable income **for actual contributions** to medical savings accounts. If nothing is deposited in such an account, there is nothing to deduct. The taxpayers provided a copy of a bank statement in each of their names identifying each account as a medical savings account; however, neither statement shows any contributions to the account for 1997.

A Notice of Deficiency Determination issued by the Idaho State Tax Commission is presumed to be accurate. Parsons v. Idaho State Tax Com'n, 110 Idaho 572 (Ct. App. 1986). The

burden is on the taxpayers to show that the tax deficiency is erroneous. Albertson's, Inc. v. State, Dept. of Revenue, 106 Idaho 810 (1984).

Idaho Code directs taxpayers to report the identical sum to Idaho as they report to the IRS modified only by adjustments provided in Idaho law. The taxpayers have submitted nothing that would dissuade the Tax Commission from following the federal audit report. In addition, no deduction can be allowed for an Idaho medical savings account if no contribution was made to that account for the year the deduction is taken. Absent evidence to the contrary, the Tax Commission upholds the Bureau's determination.

WHEREFORE, the Notice of Deficiency Determination dated September 29, 2000, is APPROVED, AFFIRMED, and MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayers pay the following tax and interest for 1997:

	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
	\$1,022	\$ 0	\$311	\$1,333
Less Payment Received	( 97)	( 10)	( 18)	( 125)
			TOTAL DUE	<u>\$1,208</u>

Interest is computed through March 15, 2002.

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

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

DATED this \_\_\_\_ day of \_\_\_\_\_, 2002.

IDAHO STATE TAX COMMISSION

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COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that I have on this \_\_\_\_ day of \_\_\_\_\_, 2002, 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]Receipt No. [Redacted]  
6[Redacted] [REDACTED]

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ADMINISTRATIVE ASSISTANT 1