

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 16847
[Redacted],)	
)	DECISION
Petitioner.)	
_____)	

This case arises from a timely protest of a State Tax Commission staff's (staff) decision adjusting property tax reduction benefits for 2002. 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 contents of that file.

[Redacted] (petitioner) filed a property tax reduction application on or about April 3, 2002. During review of that application and the accompanying copy of the petitioner's [Redacted] 1040 form, the staff discovered the petitioner received pension or annuity proceeds during the year. However, the petitioner had included only the taxable portion from the distribution in her federal adjusted gross income, and only the taxable amount was reflected in her property tax reduction application.

The staff sent the petitioner a letter advising her that her income total was going to be adjusted to include the nontaxable portion of her pension or annuity. A tax preparer protested the intended action on behalf of the taxpayer.

All property within the jurisdiction of this state is subject to property taxes. A property tax reduction benefit program is available to certain qualifying individuals throughout the state. The benefit is in the form of a payment (either total or partial) of the applicant's property taxes on the dwelling he/she owns and occupies. The payment is funded by state sales tax funds.

The amount of property tax reduction depends on income--the greater the income, the smaller the benefit. However, 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:

(a) Alimony;

(b) Support money;

(c) Nontaxable strike benefits;

(d) **The nontaxable amount of any individual retirement account, pension or annuity,** (including railroad retirement benefits, all payments received under the federal social security act except the social security death benefit as specified in this subsection, state unemployment insurance laws, and veterans disability pensions and compensation, excluding rollovers as provided in section 402 or 403 of the Internal Revenue Code);

(e) Nontaxable interest received from the federal government or any of its instrumentalities or a state government or any of its instrumentalities;

(f) Worker's compensation; and

(g) 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, the cost of medical care as defined in section 213(d) of the Internal Revenue Code, incurred or paid by the claimant and/or, if applicable, the claimant's spouse, may be deducted from income. To the extent not reimbursed, personal funeral expenses, including prepaid funeral expenses and premiums on funeral insurance, of the claimant and claimant's spouse only, may be deducted from income up to an annual maximum of five thousand dollars (\$5,000) per claim. (Emphasis added.)

The calculation of income starts with federal adjusted gross income and, thereafter, makes certain additions and deductions. The nontaxable portion of pensions or annuities is specifically required to be included in income for property tax reduction purposes. The only exception is if an annuity is rolled over as provided in section 402 or 403 of the Internal Revenue Code.

The staff determined the petitioner received a gross distribution of annuities in the amount of \$29,213. Of that amount, \$10,175 was not taxable. The petitioner's representative explained that the \$10,175 was the petitioner's own money, not income. He attached a copy of two 1099R [Redacted] income tax forms to support the explanation.

Property tax reduction benefits are not [Redacted] 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 annuity proceeds the petitioner received during 2001, although not included in her income for tax purposes, must be included in her income for property tax reduction purposes even if all income taxes had been paid in a prior year.

As a result, the petitioner's income for property tax reduction purposes exceeds the \$20,750 maximum amount allowed for a claimant to receive benefits. The petitioner's property tax reduction benefits for 2002 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 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 _____, 2002.

IDAHO STATE TAX COMMISSION

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]
