

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

In the Matter of the Protest of	)	
	)	DOCKET NO. 15917
[REDACTED],	)	
	)	DECISION
Petitioner.	)	
_____	)	

On September 10, 2001, the staff of the Tax Discovery Bureau of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayer), proposing income tax, penalty, and interest for the taxable year 1998 in the total amount of \$156.

On September 20, 2001, the taxpayer filed a timely appeal and petition for redetermination. The taxpayer did not request a hearing but did provide additional information for the Tax Commission to consider. The Tax Commission, having reviewed the file, hereby issues its decision.

The Tax Discovery Bureau (Bureau) received information from the Internal Revenue Service that a change was made to the taxpayer's 1998 federal income tax return. The Bureau reviewed the change and determined the change was applicable to the taxpayer's Idaho income tax return. The Bureau adjusted the taxpayer's return and sent her a Notice of Deficiency Determination. The taxpayer protested the Bureau's determination stating she was not aware of any changes made to her federal income tax return. The Bureau provided the taxpayer with information about the changes but received no response from the taxpayer. Therefore, the Bureau referred the matter for administrative review.

The Tax Commission sent the taxpayer a letter giving her two options for having the Notice of Deficiency Determination redetermined. The taxpayer responded stating that most of the additional income was from the sale of property [Redacted] owned in [Redacted]. The

proceeds from the sale went directly into a [Redacted] Company of which the taxpayer and her siblings were the partners. The taxpayer stated she never received any money from the sale, and therefore she should not be taxed.

The information the Tax Commission obtained on the transaction was that the taxpayer's mother had a [Redacted]; however, the property was actually titled in her children's names. When the property sold, the money from the sale was put into [Redacted] equally for each of the children. Supposedly, each of the LLC's partners received a 1099S on the sale of the property. There is some question whether the LLC paid the tax for the partners at the federal level, but the taxpayer is positive she did not pay any additional tax. The taxpayer's sister and manager of [Redacted] stated the LLC did pay a large tax to the IRS on behalf of the taxpayer.

LLCs are flow-through entities, which means any income or loss is passed down to the partners or shareholders. Each partner/shareholder has a capital account in the LLC. The capital account tracks the partner's/shareholder's equity or basis in the LLC. When a contribution is made to the LLC, the capital account of the contributing partner/shareholder is credited or increased. The income of the LLC also increases the capital accounts. When a distribution or withdrawal is made, the capital accounts are debited or decreased.

In the case at hand, the taxpayer was credited for making an additional contribution to [Redacted] when the proceeds from the sale of the [Redacted] property were put into the LLC. Even though the taxpayer did not physically receive the money from the sale of the property, the taxpayer did receive income or a gain, which is evidenced by the increase in the taxpayer's capital account of [Redacted] Regardless of the theoretical implications of the property sale transaction, the taxpayer's federal income tax return for 1998 was changed to include additional income deemed received by the taxpayer. Idaho Code section 63-3002 states that for Idaho

income tax purposes Idaho taxable income is to be identical to federal taxable income, subject to modifications contained in the Idaho Code. Therefore, if the taxpayer's federal income tax return is adjusted for additional income, a corresponding adjustment must be made to the taxpayer's Idaho income tax return.

Wherefore, absent any information that shows the federal adjustments were reversed, the Tax Commission upholds the Bureau's determination.

WHEREFORE, the Notice of Deficiency Determination dated September 10, 2001, is hereby APPROVED, AFFIRMED, and MADE FINAL.

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
1998	\$122	\$10	\$28	\$160
			AMOUNT REMITTED	<u>122</u>
			TOTAL DUE	<u>\$ 38</u>

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

An explanation of taxpayer's right to appeal this decision is included with this decision.

DATED this \_\_\_\_ day of \_\_\_\_\_, 2003.

IDAHO STATE TAX COMMISSION

\_\_\_\_\_  
COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_ day of \_\_\_\_\_, 2003, 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]

Receipt No.

---