

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 17095
[Redacted],)	
)	DECISION
Petitioners.)	
_____)	

On November 12, 2002, the Income Tax Audit Division of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayers), asserting income taxes, penalty and interest in the amount of \$39,017 for the 1999 and 2000 taxable years. On January 14, 2003, the taxpayers filed a timely appeal and petition for redetermination. An informal conference was held in Boise, Idaho on July 14, 2003. The Tax Commission, having reviewed the file, hereby issues its decision modifying the Notice of Deficiency Determination at issue in this administrative protest.

[Redacted] were both shareholders in [Redacted], which owned and operated the lodge at [Redacted]. Prior to its dissolution in 1999, [Redacted] was a Subchapter S Corporation. The 1999 Idaho corporate income tax return of [Redacted] was selected for audit. The audit resulted in several adjustments to the corporation's 1999 (final) Idaho S-Corporation income tax return. Those adjustments pass-through to [Redacted] and affect the calculation of their 1999 Idaho individual income tax return. The Tax Commission's audit staff also made additional audit adjustments to the 1999 and 2000 Idaho individual income tax returns filed by [Redacted].

The specific facts and legal analysis relating to this administrative protest are set forth in the decision issued by the Tax Commission in docket number 17098 ([Redacted] and Shareholders.) A copy of that final decision is enclosed, and the Background, Issues, and Analysis set out in that decision are hereby incorporated by reference.

Based on the agreed-to issues discussed at page 7 of the final decision issued in docket number 17098, the Tax Commission hereby modifies the Notice of Deficiency Determination issued to [Redacted].

- Modifications relating to the 1999 taxable year:
 1. The amount of the disallowed Idaho capital gain deduction is reduced from \$234,158 to \$125,316.
 2. The \$86,870 adjustment relating to the recharacterization of some of the proceeds from the liquidating distribution of [Redacted]. as dividend income is reversed.
 3. The \$31,474 adjustment relating to the pass-through gain from [Redacted] from the January 4, 1999, asset sale is increased to \$31,514.
 4. The \$4,758 adjustment relating to the installment sale gain recognized in 1999 is increased to \$4,830. This adjustment is the result of the increase of the gross profit percentage used to calculate the amount of the installment sale gain that is recognized when installment payments are received from 98.47% (per audit) to 98.60% (per final decision).

- Modifications relating to the 2000 taxable year:
 1. The \$5,070 adjustment relating to the installment sale gain recognized in 2000 is increased to \$5,146. This adjustment is the result of the increase of the gross profit percentage from 98.47% to 98.60%.

ORDER

WHEREFORE, the Notice of Deficiency Determination dated November 12, 2002, is hereby Modified and as so Modified is APPROVED, AFFIRMED AND MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayers pay the following taxes and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
1999	\$13,258	-0-	\$3,296	\$16,554
2000	3,060	-0-	515	<u>3,575</u>
			TOTAL DUE	<u>\$20,129</u>

Interest is calculated through October 30, 2003, and will continue to accrue at the rate set forth in Idaho Code § 63-3045(6)(b) until paid.

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 _____, 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]
