

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
[Redacted],) DOCKET NO. 18986
)
) DECISION
Petitioners.)
)
_____)

This case arises from a timely protest of a State Tax Commission staff decision adjusting the property tax reduction benefit for 2005. 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.

All property within the jurisdiction of this state is subject to property tax. A property tax reduction benefit is available to certain qualifying individuals throughout the state. The benefit is in the form of payment of the applicant's property tax on the dwelling he/she owns and occupies. The payment is funded by state sales tax.

[Redacted] (petitioners) filed an application with [Redacted] County for the property tax reduction benefit on April 13, 2005. Pursuant to Idaho Code § 63-707(5), the staff reviewed the application and the petitioners' income records. The petitioners were sent a letter advising them the staff had determined they should be denied a \$3,295 deduction for capital gains because the amount was shown as "other gains" rather than "capital gains" in the petitioners' 2004 federal income tax return. In addition, the petitioners were asked to furnish receipts for \$7,272 of medical expenses.

The petitioners filed an appeal and sent additional information. Their file was transferred to the Legal/Tax Policy Division for administrative review.

Income for the purpose of the property tax reduction benefit 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, if married, 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. "Income" does not include veterans disability pensions received by a person described in subsection (1)(e) who is a claimant or a claimant's spouse if the disability pension is received pursuant to a service-connected disability of a degree of forty percent (40%) or more. "Income" does not include dependency and indemnity compensation or death benefits paid to a person described in subsection (1) of this section by the United States department of veterans affairs and arising from a service-connected death or disability. "Income" does not include lump sum death benefits made by the social security administration pursuant to 42 U.S.C. section 402(i). **Documentation of medical expenses may be required by the county assessor, board of equalization and state tax commission in such form as the county assessor, board of equalization or state tax commission shall determine. . . .**

(Emphasis added.)

The information submitted for review by the petitioners included a document from Titleone Corporation confirming a \$3,295 capital gain for 2004. The petitioners explained the taxable income was incorrectly reported on the wrong line in their federal income tax return. The document and explanation allows that amount to be deducted from the petitioners' income for the 2005 property tax reduction benefit.

Comparing the amount the petitioners reported as medical expenses with the receipts they provided results in some of the expenses being disallowed as deductible medical expenses. Pursuant to Internal Revenue Code § 213(d) and supported by the Internal Revenue Service's Publication 502 Medical and Dental Expenses, over-the-counter drugs are not deductible medical expenses. In addition, cash register receipts are not sufficient proof of a deductible medical expense because they do not identify the patient.

The petitioners' completed Medical Expense Statement shows total medical expenses of \$7,272. Of that amount, \$5,928 of the expenses was substantiated as deductible medical expenses. The medical expenses that were not identified by some form of substantiation are not allowed to be deducted from the petitioners' income for the purpose of this benefit.

Pursuant to Idaho Code § 701(5), income begins with the petitioners' federal adjusted gross income (\$6,488). Social Security (\$19,985) is added to that amount and capital gains (\$3,295) and medical expenses (\$6,492) are deducted. The result is a total net income for property tax reduction purposes of \$16,686. The petitioners qualify to receive a benefit of an amount not to exceed \$570 for 2005.

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 Intent to Deny Benefit letter dated August 3, 2005, is hereby MODIFIED and, as so modified, is APPROVED, AFFIRMED, and MADE FINAL.

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

DATED this ____ day of _____, 2005.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have on this ____ day of _____, 2005, 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]
[Redacted]
[Redacted]

Receipt No.
