

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

In the Matter of the Protest of	)	
	)	DOCKET NO. 18526
[REDACTED],	)	
	)	DECISION
Petitioner.	)	
_____	)	

On November 30, 2004, 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 years 1998 and 1999 in the total amount of \$1,779.

On December 18, 2004, the taxpayer filed a timely appeal and petition for redetermination. The taxpayer did not request a hearing but did submit income tax returns for the Tax Commission to consider. The Tax Commission, having reviewed the file, hereby issues its decision.

The Tax Discovery Bureau (Bureau) received information that the taxpayer received wages from an Idaho source in the years 1996 through 1999. The Bureau researched the Tax Commission's records and found that the taxpayer did not file Idaho individual income tax returns for the taxable years 1996 through 1999. The Bureau sent the taxpayer a letter asking him about his requirement to file Idaho income tax returns. The taxpayer did not respond. The Bureau gathered additional information about the taxpayer and determined he was required to file Idaho income tax returns. The Bureau prepared returns for the taxpayer and sent him a Notice of Deficiency Determination for the taxable years 1998 and 1999.

The taxpayer protested the Bureau's determination. He stated he worked in Idaho from late 1996 until June 1999. The taxpayer stated he would supply additional information once he located the necessary documentation that was scattered during a recent hurricane.

The Bureau kept the taxpayer's case for several months awaiting additional information from the taxpayer. The information, documentation, or income tax returns never came. Therefore, the Bureau referred the matter for administrative review. The Tax Commission sent the taxpayer a letter giving him two options for having the Notice of Deficiency Determination redetermined. The taxpayer responded that he had sent completed returns to the Bureau in the summer of 2005 but had heard nothing back from the Bureau. He stated it was his understanding that the purpose of this appeal was to allow him additional time to locate documents to re-file his returns. The taxpayer stated he was unable to find any documentation, so he accepted the income information the Bureau sent him. The taxpayer provided copies of the returns he had previously supplied and payment of the amount due.

The Tax Commission reviewed the returns submitted by the taxpayer and found corrections were needed. For 1998, the taxpayer included wages, dividends, and interest as his sources of income. He did not include the conversion of his traditional IRAs to Roth IRAs. The conversion of a traditional IRA to a Roth IRA is a taxable event (Internal Revenue Code section 408A(d)(3)(A)(i)). The conversion is considered a distribution of the traditional IRA but without the premature distribution tax. However, for taxable years before January 1, 1999, the conversion of traditional IRAs to Roth IRAs is to be included in income ratably over a four-year period beginning with the taxable year of the conversion. Therefore, for 1998 the taxpayer should have included one-fourth of the total conversion to Roth IRAs in his taxable income.

For 1999, in addition to adding a portion of the Roth conversion to his taxable income, the taxpayer was a part-year resident of Idaho. As a part-year resident, the taxpayer is required to proportion his personal exemption and standard deduction in the ratio that his Idaho income bears to his total income. The taxpayer made an attempt to prorate his personal exemption and standard deduction, but it was not in the ratio allowed by Idaho Code section 63-3026A. Therefore, the Tax Commission corrected the taxpayer's exemption amount and standard deduction.

Other adjustments made to the taxpayer's 1998 and 1999 returns were for the permanent building fund tax and the grocery credit. Every individual required to file an Idaho income tax return is required to pay a tax of \$10 called the permanent building fund tax. (Idaho Code section 63-3082.) All residents and part-year residents of Idaho who are required to file Idaho income tax returns are also allowed a credit against their tax, commonly called the grocery credit. (Idaho Code section 63-3024A.) The taxpayer failed to include the permanent building fund tax and the grocery credit on his Idaho returns.

The taxpayer added penalty and interest to his Idaho income tax returns. The Tax Commission recomputed these amounts to correspond with the corrected tax figured from the adjustments mentioned.

WHEREFORE, the Notice of Deficiency Determination dated November 30, 2004, is hereby MODIFIED in accordance with the provisions of this decision and, as so modified, is APPROVED, AFFIRMED, and MADE FINAL.

IT IS ORDERED and THIS DOES ORDER that the taxpayer receive the following refund of his overpayment:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
1998	\$ 413	\$103	\$189	\$ 705
1999	160	40	62	<u>262</u>
			TOTAL DUE	\$ 967
			REMITTANCE	<u>976</u>
			REFUND	\$9

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

DATED this \_\_\_\_ day of \_\_\_\_\_, 2006.

IDAHO STATE TAX COMMISSION

\_\_\_\_\_  
COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_ day of \_\_\_\_\_, 2006, 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.