

considered. Also included in the letter was an explanation that, upon review of the taxpayers' case, the Tax Commission did not find any income reported in 2001 that was double taxed by both Idaho and [Redacted]. The taxpayers responded that after the change made by the Franchise Tax Board (FTB) they did have income that was being taxed by both Idaho and [Redacted]. They quoted parts of the letter from the FTB to show a clear and unambiguous admission that their 2001 income taxed by Idaho served as a basis for [Redacted] taxes. From these quotes, the taxpayer surmised that the Tax Commission's position of no double taxed income was presumptuous and false.

The taxpayers filed a part-year resident return for 2001 with the FTB. The FTB corrected the taxpayers' 2001 return to correct the computation of tax for the taxpayers' part-year resident status. [Redacted] taxing scheme for part-year residents and non-residents begins with the taxpayer's total taxable income as if he were a resident of [Redacted] for the entire year. The reason for this is to tax the income at the highest graduated rate that [Redacted] taxes income. After the tax amount is computed on the taxpayer's total income, a percentage is applied to that tax based upon a ratio of the taxpayer's [Redacted] source income to his total income. This method assures that [Redacted] receives the highest rate of tax on [Redacted] source income. It does not tax income that is not [Redacted] source.

When the taxpayers computed their [Redacted] tax, they calculated the tax only on their [Redacted] source income. They did not start with total taxable income as if they were a resident of [Redacted]. Consequently, the tax they figured was at a lower graduated rate than on their total income. This resulted in no tax being paid to [Redacted] after allowing for their [Redacted] exemption credit. [Redacted] corrected this by calculating the taxpayers' tax on the correct amount of taxable income, according to its law, and by applying the ratio of [Redacted] source

income to total income to the corrected tax amount. This in effect applies the highest possible tax rate that could be imposed on the taxpayers to their [Redacted] source income. It does not tax any income that was reported as Idaho source income.

The taxpayers contend that since [Redacted] is calculating tax on an amount greater than the income they received while [Redacted] residents, [Redacted] is taxing income received while they were Idaho residents. However, as previously stated, [Redacted] tax is based on total income but is then reduced to the percentage of [Redacted] income to total income. [Redacted] did not tax any income that was reported to Idaho. The Tax Commission finds there was no double tax income. Therefore, a credit for taxes paid to [Redacted] is not available on either the 2001 or 2004 Idaho income tax returns.

The taxpayers provided an amended 2004 Idaho income tax return that included an additional Idaho subtraction for health insurance premiums. The Tax Commission accepts this amendment to the taxpayers' 2004 return, subject to any future review within the statute of limitations for review of the taxpayers' 2004 Idaho individual income tax return.

WHEREFORE, the Notice of Deficiency Determination dated August 25, 2005, 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 taxpayers pay the following tax and interest:

YEAR	TAX	INTEREST	TOTAL
2004	\$242	\$10	\$252

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 _____, 2005.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

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

Receipt No.

[REDACTED]
