

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 21470
[REDACTED],)	
)	DECISION
Petitioner.)	
_____)	

This case arises from a timely protest of a State Tax Commission (Commission) staff decision adjusting the property tax reduction benefit for 2008. This matter was submitted for a decision based on the documents in the file. The Commission has reviewed the file and makes its decision based on its contents.

All property within the jurisdiction of this state is subject to property tax. A property tax reduction benefit is available to certain qualifying individuals. The benefit is in the form of a payment of the applicant’s property tax on the dwelling he/she owns and occupies. The payment is funded by state sales tax. The amount of property tax reduction depends on income--the greater the income, the smaller the benefit.

[Redacted] submitted an application for a property tax reduction benefit on April 8, 2008. The [Redacted] County Assessor’s office sent that application, together with other applications, to the Commission for review and processing.

The staff reviewed the petitioner’s application and compared the 2007 income reported in her application with records available to the Commission. The staff identified a non-taxable annuity that had not been included in the application. Because the inclusion of the annuity income increased the petitioner’s 2007 income beyond the maximum income allowed for an applicant to receive a minimum 2008 benefit, the staff sent the petitioner a letter advising her of

the intent to deny her the benefit. The petitioner appealed, and her file was transferred to the Legal/Tax Policy Division for administrative review.

Income for property tax reduction benefit purposes is defined in Idaho Code § 63-701 as income received in the calendar year immediately preceding the year in which a claim is filed. The calculation of income starts with federal adjusted gross income and, thereafter, makes certain additions and deductions.

Idaho Code § 63-701(5) describes income as:

(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 any return of principal paid by the recipient of an annuity and 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 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. "Income" shall be that received in the calendar year immediately preceding the year in which a claim is filed. Where a claimant and/or the claimant's spouse does not file a federal tax return, the claimant's and/or the claimant's spouse's federal adjusted gross income, for purposes of this section, shall be an income equivalent to federal adjusted gross income had the claimant and/or the claimant's spouse filed a federal tax return, as determined by the county assessor. The county assessor, board of equalization or state tax commission may require documentation of income in such form as each shall determine, including, but not limited to: copies of federal or state tax returns and any attachments thereto; and income reporting forms such as the W2 and 1099. (Emphasis added.)

The nontaxable portion of individual retirement accounts, pensions, or annuities are specifically required to be included in income to determine the benefit amount a qualified applicant is to receive. The only exceptions are annuities that are “return of principal paid by the recipient of an annuity” or if the annuities are determined to be qualified as “rollovers as provided in section 402 or 403 of the Internal Revenue Code.”

In her letter of protest, the petitioner did not claim the funds were rolled over to another account but that the amount distributed was a return of principal.

Idaho Property Tax Administrative Rule 700.03 provides guidelines for determining any return of principal paid by the recipient of an annuity:

03. Claimant's Income. All income defined in Section 63-701(5), Idaho Code, that is received by either spouse is included in household income even if one spouse lives in a medical care facility or otherwise lives outside the home except as provided in Rule 709 of these rules. **For the purposes of excluding from claimant's income any return of principal paid by the recipient of an annuity, follow these guidelines.** (1-1-06)

a. An annuity means a contract sold by an insurance company to the claimant or claimant's spouse and designed to provide payments to the holder at specified equally spaced intervals or as a lump sum payment with the following conditions: (1-1-06)

i. The annuity must not be part of any pension plan available to an employee; (1-1-06)

ii. No tax preference is given to the money spent to purchase the annuity (purchase payments must not reduce the buyer's taxable income); (1-1-06)

iii. The buyer of the annuity must have purchased the annuity voluntary and not as a condition of employment or participation in an employer provided pension system; and (1-1-06)

iv. Earnings from investments in the annuity must be tax-deferred prior to withdrawal. (1-1-06)

b. Annuities do not include KEOGH plans, Individual Retirement Accounts (IRAs), employer provided pensions, and similar financial instruments. **Life insurance premiums shall not be treated as the principal of an annuity.** (1-1-06)

c. The recipient of the annuity payment(s), the claimant or claimant's spouse, has the burden of proving the income is the principal paid by the recipient. Such proof includes copies of the holder's annuity contract and any other documentation clearly indicating the conditions listed in Subparagraphs 700.03.a.i. through 700.03.a.iv. of this Rule are met. IRS form 1099 does not provide sufficient proof. (1-1-06)
(Emphasis added.)

The petitioner did not provide a copy of an annuity contract or other documentation that clearly indicates none of the conditions listed in Subparagraphs 700.03.a.i. through 700.03.a.iv.

of the above rule existed. Therefore, the funds are required to be included in the petitioner's income for the purpose of the property tax reduction benefit.

In the present matter, the petitioner reported 2007 federal adjusted gross income of \$11,320 and social security income of \$12,896. When the nontaxable portion of the annuity, \$32,013, is added to the federal adjusted gross income and social security and \$3,234 of out-of-pocket medical expenses and \$5,000 of funeral expenses are subtracted, the petitioner's total net 2007 income is \$47,995.

The petitioner's 2007 income for the purpose of the property tax reduction benefit exceeds the \$28,000 maximum income allowed for a minimum 2008 property tax reduction benefit. The petitioner must be denied the benefit.

WHEREFORE, the Intent to Deny Benefits letter dated October 8, 2008, is APPROVED, AFFIRMED, and MADE FINAL.

An explanation of the petitioner's right to appeal this decision is enclosed.

DATED this _____ day of _____, 2009.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____, 2009, 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.
