

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

In the Matter of the Protest of	)	
	)	DOCKET NO. 21846
[Redacted]	)	
Petitioner.	)	DECISION
	)	
	)	
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On August 12, 2008, the staff of the Tax Discovery Bureau of the Idaho State Tax Commission issued a Notice of Deficiency Determination to [Redacted] (taxpayer) proposing additional income tax, penalty, and interest for taxable year 2005 in the total amount of \$994.

On August 20, 2008, the taxpayer filed a timely appeal and petition for redetermination. The taxpayer did not request a hearing but rather wanted to submit additional information for the Tax Commission to consider. The Tax Commission, having reviewed the file, hereby issues its decision.

The Tax Discovery Bureau (Bureau) received information [Redacted] that the taxpayer failed to include all his income on his [Redacted] income tax return for 2005. The Bureau reviewed the information and found that the taxpayer omitted the same income from his 2005 Idaho individual income tax return. The Bureau corrected the taxpayer's Idaho income tax return and sent him a Notice of Deficiency Determination.

The taxpayer protested the Bureau's determination. The taxpayer stated the income was attributed to a debt cancellation that was actually a reduction of debt after the purchase and is not includable in income; it is a reduction of basis in the property. The taxpayer provided copies of letters [Redacted] and the lending institution as well as a copy of the section in IRS Publication 17 that discusses price reductions after purchase.

The Bureau reviewed the information and obtained updated information [Redacted]. The Bureau found that [Redacted] had not changed its position regarding the additional income. Therefore, the Bureau referred the matter for administrative review.

The Tax Commission reviewed the matter and sent the taxpayer a letter that discussed the methods available for redetermining a protested Notice of Deficiency Determination. The taxpayer did not respond. The Tax Commission sent a follow-up letter to the taxpayer to which the taxpayer contacted the Tax Commission and stated that [Redacted] had reversed its position and sent him a refund. The taxpayer stated he received a letter [Redacted] showing the amount of the refund and stating that they corrected his other income. The taxpayer faxed a copy of the letter to the Tax Commission for its review.

The Tax Commission reviewed the letter faxed by the taxpayer and obtained updated information [Redacted]. Both the letter and the updated information confirmed the taxpayer's statements. However, there was still a discrepancy between the taxable income reported in the federal information and that reported on the taxpayer's Idaho income tax return. (See Idaho Code section 63-3002.) The Tax Commission contacted the taxpayer to discuss the difference, and the taxpayer stated he vaguely remembered another change [Redacted] made to his return prior to the debt reduction. The taxpayer asked for information on the income discrepancy and what would be the additional tax. The Tax Commission provided the information to the taxpayer and waited for a response. After several months without a response, the Tax Commission decided the matter based upon the information available.

Idaho Code section 63-3002 states it is the intent of the Idaho income tax act to tax individuals based on a measurement of their income and that Idaho taxable income is to be identical to federal taxable income subject to certain modifications contained in the Idaho law.

Upon receiving information [Redacted], the Bureau found that the taxpayer's 2005 Idaho individual income tax return did not conform to Idaho Code section 63-3002. Part of the non-conformity was due to an audit change [Redacted] for unreported income. That change was later reviewed and reversed [Redacted] as being nontaxable income. The Tax Commission therefore reduced the Bureau's adjustment by the nontaxable income. The remaining difference was a deduction for a health savings account that [Redacted] apparently disallowed during the processing of the taxpayer's federal income tax return.

The taxpayer provided no evidence that the [Redacted] reversed this adjustment. In fact, the latest information the Tax Commission received [Redacted] showed that the taxpayer's [Redacted] income included the adjustment or correction for the health savings account. Since the Idaho Code requires that the taxpayer's Idaho taxable income be identical to the taxpayer's [Redacted] taxable income, the Tax Commission finds that the taxpayer's Idaho income tax return must be adjusted to agree with the federal information. Therefore, the Tax Commission upholds the Bureau's adjustment for the disallowed deduction.

The Bureau added interest and penalty to the taxpayer's additional Idaho tax. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

WHEREFORE, the Notice of Deficiency Determination dated August 12, 2008, 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 pay the following tax, penalty, and interest (computed to February 15, 2010):

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2005	\$259	\$ 13	\$ 62	\$334

DEMAND for immediate payment of the foregoing amount is hereby made and given.

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

DATED this \_\_\_\_\_ day of \_\_\_\_\_ 2009.

IDAHO STATE TAX COMMISSION

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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.

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