

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

In the Matter of the Protest of	)	
	)	DOCKET NO. 23983
[Redacted],	)	
	)	
Petitioners.	)	DECISION
_____	)	

[Redacted] (taxpayers) protested the Notice of Deficiency Determination dated February 18, 2011, asserting income tax and interest for taxable years 2007 and 2008 in the total amount of \$439. The taxpayers claimed an Idaho subtraction for worker’s compensation on their 2007 Idaho income tax return that was not included in their federal taxable income. For taxable year 2008, the taxpayers claimed an Idaho subtraction from a fiduciary that was not reported on their federal income tax return. Both of these subtractions were disallowed upon review of the taxpayers’ 2007 and 2008 Idaho income tax returns.

The taxpayers protested the adjustments to their Idaho returns; however, their protest letter did not provide any information regarding either of the subtractions claimed. The Tax Commission sent the taxpayers a hearing rights letter and a follow-up letter that the taxpayers failed to respond to. The taxpayers provided no additional information. Therefore, the Tax Commission issued its decision based upon the information available.

Idaho Code section 63-3002 states the Idaho legislature’s intent regarding the Idaho Income Tax Act.

It is the intent of the legislature by the adoption of this act, insofar as possible to make the provisions of the Idaho act identical to the provisions of the Federal Internal Revenue Code relating to the measurement of taxable income, to the end that the taxable income reported each taxable year by a taxpayer to the internal revenue service shall be the identical sum reported to this state, subject only to modifications contained in the Idaho law; to achieve this result by the application of the various provisions of the Federal Internal Revenue Code relating to the definition of income, exceptions therefrom, deductions (personal and otherwise),

accounting methods, taxation of trusts, estates, partnerships and corporations, basis and other pertinent provisions to gross income as defined therein, resulting in an amount called "taxable income" in the Internal Revenue Code, and then to impose the provisions of this act thereon to derive a sum called "Idaho taxable income"; . . .

The taxpayers' 2007 and 2008 Idaho income tax returns begin with federal adjusted gross income as required on the Idaho income tax form. For taxable year 2007, the taxpayers subtracted an amount identified as worker's compensation. Worker's compensation received as a result of personal injury or sickness while on the job is exempt from federal taxation. (Internal Revenue Code section 104.) Consequently, worker's compensation is generally not included in federal adjusted gross income which in turn would not be included in Idaho taxable income. The taxpayers' 2007 federal income tax return did not report any worker's compensation. Therefore, since there was no worker's compensation included in federal taxable income, no subtraction is available on the taxpayers' 2007 Idaho income tax return for worker's compensation.

The Tax Commission believes the subtraction claimed as worker's compensation on the taxpayers' 2007 return was actually a subtraction of unemployment compensation received by the taxpayers in 2007. The same amount reported as worker's compensation on the Idaho return was reported as unemployment compensation on the taxpayers' federal income tax return. Regardless, even as unemployment compensation a subtraction is not available on the Idaho income tax return.

On the taxpayers' 2008 Idaho income tax return, the taxpayers subtracted an amount identified as "FIDUCIARY SUBTRACTION." The audit staff asked the taxpayers to document the subtraction but never received a response. The taxpayers stated in their protest letter that their accountant said it was on the K-1 from a trust that [Redacted] was the beneficiary. The

taxpayers stated they would provide a copy if needed. However, as previously stated, no documentation was provided when asked by the audit staff.

The Tax Commission reviewed the trust's fiduciary return that was filed with the Tax Commission and found nothing to match the amount claimed as a subtraction on the K-1 [Redacted]. If the subtraction was a pass-through item from the trust to its beneficiary, that subtraction or deduction would be reported on the beneficiary's federal income tax return. No such subtraction or deduction appears on the taxpayers' 2008 federal income tax return. Therefore, it appears there is no validity to the subtraction.

Since the taxpayers failed to document the subtraction and the Idaho Code has no provision for such a subtraction, the Tax Commission must uphold the adjustment to the taxpayers' 2008 Idaho income tax return.

The Bureau added interest to the taxpayers' tax. The Tax Commission reviewed the addition and found it appropriate and in accordance with Idaho Code section 63-3045.

THEREFORE, the Notice of Deficiency Determination dated February 18, 2011, and directed to [Redacted] is AFFIRMED.

IT IS ORDERED that the taxpayers pay the following tax and interest:

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$194	\$39	\$233
2008	194	27	<u>221</u>
		BALANCE DUE	<u>\$454</u>

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.

DATED this \_\_\_\_\_ day of \_\_\_\_\_ 2012.

IDAHO STATE TAX COMMISSION

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COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2012, 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.