

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
)
[Redacted],) DOCKET NO. 24982
)
)
Petitioners.) DECISION
)
_____)

[Redacted] and [Redacted] (Petitioners) protested the Notice of Deficiency Determination dated April 2, 2012, asserting income tax, penalty, and interest for taxable years 2008, 2009, and 2010 in the total amount of \$28,138. Petitioners disagreed with the flow-through income adjustment from their wholly-owned S-Corporation resulting from an understatement of the S-corporation’s gross receipts. The Tax Commission, having reviewed the file, hereby issues its decision.

BACKGROUND

Petitioners are the sole shareholders of [Redacted], an Idaho S-Corp. The Income Tax Audit Bureau (Bureau) reviewed [Redacted] corporate income tax returns for the fiscal years ending 10/31/2008, 10/31/2009, and 10/31/2010, and found [Redacted] gross receipts did not agree with the sales tax returns [Redacted] filed during those periods. The Bureau adjusted [Redacted] corporate income tax returns and likewise adjusted Petitioners’ individual income tax returns for the flow-through income. (S-Corporation income flows through to the shareholder and is reported on the shareholder’s individual income tax return.)

The Bureau sent a Notice of Deficiency Determination to Petitioners, which Petitioners protested. Petitioners stated [Redacted] corporate income tax returns correctly reported the sales made by [Redacted]. Petitioners argued [Redacted] sales tax returns were overstated due to a

duplication of some of [Redacted] taxable sales. The Bureau acknowledged Petitioners' protest and referred the matter for administrative review.

The Tax Commission reviewed the matter and provided Petitioners with the opportunity to state their position in conjunction with the protest filed by [Redacted]. The Tax Commission ruled on the adjustments to [Redacted] corporate income tax returns in its decision on Docket No. 24983. In that decision, the Tax Commission accepted a [Redacted] return previously not filed, but rejected Petitioners' duplicate sales argument because [Redacted] did not provide any proof that duplicate sales were reported.

LAW AND ANALYSIS

S-Corporations are flow-through entities and their taxation is addressed in subchapter S of the Internal Revenue Code (IRC). Within subchapter S is IRC section 1366(a), which states in pertinent part,

(a) Determination of shareholder's tax liability.

(1) In general.

In determining the tax under this chapter of a shareholder for the shareholder's taxable year in which the taxable year of the S corporation ends (or for the final taxable year of a shareholder who dies, or of a trust or estate which terminates, before the end of the corporation's taxable year), there shall be taken into account the shareholder's pro rata share of the corporation's

(A) items of income (including tax-exempt income), loss, deduction, or credit the separate treatment of which could affect the liability for tax of any shareholder, and

(B) nonseparately computed income or loss.

Therefore, any change to a S-Corp's income requires a similar change to the S-Corp's shareholder's income. In this case, Petitioners are the sole shareholders of [Redacted]. Consequently, any change to [Redacted] income is reflected on Petitioners' individual income tax return. Since the Tax Commission's decision for Docket No. 24983 upheld the deficiency

determination attributable to taxable years 2009 and 2010, Petitioners' individual income tax returns for those years should be adjusted accordingly.

CONCLUSION

Petitioners are the sole shareholders of an Idaho S-Corp. As such, Petitioners are required to report the income or loss of the S-Corp on their individual income tax return. As a result of an audit and subsequent Tax Commission decision, Petitioners' S-Corp's taxable income changed, which, in turn, changed Petitioners' taxable income. Therefore, following the Tax Commission's decision regarding Petitioners' S-Corp, the Tax Commission upholds the Bureau's determination for taxable years 2009 and 2010, and cancels the Bureau's determination for taxable year 2008.

THEREFORE, the Notice of Deficiency Determination dated April 2, 2012, and directed to [Redacted] and [Redacted] is AFFIRMED as MODIFIED by this decision.

IT IS ORDERED that Petitioners pay the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2008	\$ 0	\$ 0	\$ 0	\$ 0
2009	2,138	107	381	2,626
2010	5,631	845	749	<u>7,225</u>
			TOTAL DUE	<u>\$9,851</u>

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

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

DATED this _____ day of _____ 2014.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2014, 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.
