

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)
[Redacted],) DOCKET NO. 25591
)
)
Petitioners.) DECISION
)
_____)

[Redacted] and [Redacted] (Petitioners) protested the Notice of Deficiency Determination dated October 31, 2012, issued by the Tax Discovery Bureau of the Idaho State Tax Commission for taxable year 2010 in the total amount of \$608. Petitioners disagreed that their 2010 Idaho income tax return did not report all their income for that taxable year. The Tax Commission, having reviewed the file, hereby issues its decision.

BACKGROUND

In a review of the information the Tax Commission receives from various sources, the Tax Discovery Bureau (Bureau) found that [Redacted] received W-2 wages for taxable year 2010. The Bureau researched the Tax Commission’s records and found [Redacted] did not file an Idaho individual income tax return for that year. The Bureau sent [Redacted] a letter asking about her requirement to file an Idaho income tax return. Petitioners responded with a 2010 Idaho income tax return. The Bureau reviewed the return and found Petitioners did not include all the income that was reported to the Tax Commission that Petitioners received during the taxable year. The Bureau corrected Petitioners’ 2010 Idaho income tax return and sent them a Notice of Deficiency Determination.

Petitioners protested the Bureau’s corrections. Petitioners stated the [Redacted] also questioned their income regarding the so-called cancellation of debt. Petitioners stated they know nothing about any debt cancellation from the two financial institutions reporting the debt

cancellation. Petitioners provided a copy of their letter to the [Redacted] contesting the debt cancellation income. Petitioners also provided a letter from the [Redacted] that stated the [Redacted] received their letter and that the [Redacted] would let Petitioners know what the [Redacted] was going to do. Petitioners stated they were still waiting for the [Redacted] decision.

Petitioners also argued that the 1099-MISC income the Bureau included was income reported on Petitioners' S-corporation return. Petitioners provided a copy of the front page of their S-corporation return and stated the gross income reported included both 1099-MISC items added by the Bureau. Petitioners stated they reported the flow-through income as required on their personal 2010 income tax return.

The Bureau acknowledged Petitioners' protest and asked them to provide additional information. Petitioners replied they had no documentation for the cancellation of debt income. Petitioners stated their mortgage, which they paid off, could have been with one of the financial institutions, but they had no knowledge of an account with the other institution. Petitioners believe the debt cancellations are bogus. As for the income reported on the S-corporation return, Petitioners stated they would send a copy of the S-corporation return as evidence of the income being reported. Petitioners believe that even with the added cancellation of debt income they would still be entitled to a refund for taxable year 2010.

The Bureau did not receive any further information from Petitioners, so the matter was transferred for administrative review. The Tax Commission sent Petitioners a letter that discussed the methods available for redetermining a protested Notice of Deficiency Determination. Petitioners did not respond. Therefore, the Tax Commission decided the matter based upon the information available.

LAW AND ANALYSIS

Idaho Code section 63-3002 states that an Idaho resident is required to pay a tax, measured by his income from all sources, to the state of Idaho. Internal Revenue Code section 61(a)(12) states that gross income includes income realized from the discharge of indebtedness. Generally, when a debt is discharged, the individual is deemed to have received income because he no longer has to pay the debt for which he received some benefit in goods or services. Petitioners stated they were unaware of any debt being forgiven or cancelled. Petitioners stated they were waiting for guidance or a ruling from the [Redacted] on the matter.

The Tax Commission obtained Petitioners' [Redacted] transcript, and as of September 15, 2014, Petitioners' [Redacted] taxable income included the amounts reported as debt cancellation. Petitioners' [Redacted] transcript also showed additional tax assessed, which appears to be related to the debt cancellation income. Since the [Redacted] apparently determined Petitioners' [Redacted] taxable income included the debt cancellation income, that same income should be included in Petitioners' Idaho taxable income. *See* Idaho Code section 63-3002.

However, Petitioners' [Redacted] transcript did not show any additional income added to Petitioners' [Redacted] taxable income for the 1099-MISC income Petitioners claimed was reported on their S-corporation return. The assumption here is that the [Redacted] was satisfied or had sufficient information to accept that the 1099-MISC income was reported and the appropriate amount flowed through to Petitioners and was reported on their individual income tax return. This being the case, the Tax Commission finds it proper to follow the [Redacted] treatment of the 1099-MISC income.

CONCLUSION

In Idaho, a State Tax Commission deficiency determination is presumed to be correct and the burden is on the taxpayer to show that the deficiency is erroneous. Parsons v. Idaho State Tax Commission, 110 Idaho 572, 574-575 n.2, 716 P.2d 1344, 1346-1347 n.2 (Ct. App. 1986). Petitioners argued the cancellation of debt income was bogus, but did not provide anything, such as a credit report, to help substantiate their position. Petitioners also argued the 1099-MISC income was reported on their individual income tax return as a flow-through item from their S-corporation. Petitioners' proof of their claims was lacking at best. However, based upon the information obtained by the Tax Commission from the [Redacted], the Tax Commission was able to determine the [Redacted] treatment of Petitioners' seemingly unreported income. As a result, the Tax Commission upholds the Bureau's addition of the cancellation of debt income, but does not uphold the addition of the 1099-MISC income.

The Bureau added interest and penalty to Petitioners' tax deficiency. The Tax Commission reviewed those additions and found them not applicable due to the resulting refund due Petitioners.

THEREFORE, the Notice of Deficiency Determination dated October 31, 2012, and directed to [Redacted] and [Redacted] is AFFIRMED as MODIFIED.

IT IS ORDERED that Petitioners receive the following refund:

<u>YEAR</u>	<u>REFUND CLAIMED</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	(\$646)	\$306	\$0	\$0	(\$346)

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.
