

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 39020
[Redacted],)	
)	
Petitioners.)	DECISION
)	
_____)	

[Redacted] and [Redacted] (Petitioners) protested the Notice of Deficiency Determination dated April 3, 2014, asserting additional income tax and interest in the total amount of \$1,387 for taxable years 2010 through 2013. Petitioners did not agree with the adjustment to the retirement benefits deductions claimed. Petitioners stated [Redacted] was a civil service retiree and her retirement income should qualify for the deduction. The Tax Commission, having reviewed the file, hereby issues its decision.

BACKGROUND

Petitioners filed their 2010, 2011, 2012, and 2013 Idaho individual income tax returns claiming a deduction for retirement benefits. The Income Tax Audit Bureau (Bureau) reviewed Petitioners' retirement benefits deduction and determined that even though [Redacted] was a civil service retiree, her retirement income did not qualify for the retirement benefits deduction because it was paid out of the Federal Employees Retirement System (FERS). The Bureau corrected Petitioners' Idaho income tax returns and sent them a Notice of Deficiency Determination.

Petitioners protested, stating the tax software they used asked the question if their retirement income was for being a public servant. Petitioners answered the question affirmatively, since [Redacted] worked for various [Redacted] agencies for over 20 years. The software then automatically computed the Idaho retirement benefits deduction. Petitioners stated

that during [Redacted]20-year employment she paid into both the Civil Service Retirement System (CSRS) and FERS. Petitioners could not see how [Redacted] employment and contributions to both retirement plans made her ineligible for the deduction since she was a civil service employee.

In a phone conversation with Petitioners and Petitioners' accountant, the Bureau explained the difference between the CSRS and FERS plans, and that the Idaho code specifically includes CSRS, but not FERS. The Bureau stated that FERS retirement accounts begin with a certain number, which is the same number [Redacted] account started with, so the presumption was that [Redacted] was under the FERS plan. Petitioners did not agree that a number designation should be used to disqualify them from the retirement benefits deduction. The matter was not settled, so the Bureau referred the case for administrative appeal.

The Tax Commission sent Petitioners a letter that discussed their options in the administrative review process. Petitioners requested a hearing, which was held on May 8, 2015. During the hearing, the CSRS and FERS plans were discussed and Petitioners provided documentation showing the amounts [Redacted] received monthly from the CSRS plan and the FERS plan. The Tax Commission received and reviewed the information provided and hereby issues its decision.

LAW AND ANALYSIS

Idaho Code section 63-3022A provides for a deduction of certain retirement benefits. To qualify, the individual receiving the retirement income must be age 65 or older, or age 62 and classified as disabled. In addition, the retirement income must be paid by the United States of America to a retired civil service employee; by the firemen's retirement fund of the state of Idaho to a retired fireman; by the policemen's retirement fund of a city within Idaho to a retired

policeman; or by the United States of America to a retired member of the military services of the United States.

Administrative Income Tax Rule IDAPA 35.01.01.130.01.a, further defines what qualifies as a retirement annuity paid to a retired civil service employee. It states,

a. Retirement annuities paid to a retired civil service employee. For purposes of this deduction a retired civil service employee is an individual who is receiving retirement annuities paid under the Civil Service Retirement System by the United States Government. An individual is entitled to benefits from this retirement system only if he established eligibility prior to 1984. Retirement annuities paid to a retired federal employee under the Federal Employees Retirement System generally do not qualify for the deduction. Retirement annuities received under the Federal Employees Retirement System by a retiree previously covered under the Civil Service Retirement System qualify to the extent the retiree establishes the portion of the annuity attributable to coverage under the Civil Service Retirement System. (Underlining added.)

The Bureau adjusted Petitioners' returns because, based upon the forms 1099R issued by the Office of Personnel Management Retirement Operations, Petitioners' retirement plan was the FERS retirement plan. However, Petitioners stated [Redacted] was covered under both CSRS and FERS. Petitioners provided a copy of [Redacted] monthly retirement statement which identified the amounts she received monthly from CSRS and FERS. Petitioners' statement showed 51 percent of [Redacted] civil service retirement income was paid from the CSRS plan.

CONCLUSION

[Redacted] retired as a civil service employee. [Redacted] retirement annuity was paid from two [Redacted] retirement plans, CSRS and FERS. The CSRS portion of [Redacted] retirement annuity is 51 percent of each monthly payment. Therefore, in accordance with Rule 130.01.a, 51 percent of [Redacted] civil service retirement annuity qualifies for the Idaho retirement benefits deduction. Petitioners are entitled to a retirement benefits deduction, but not

the full amount as claimed on Petitioners' income tax returns. The Tax Commission recomputed the deduction allowing only the CSRS portion of [Redacted] civil service retirement annuity.

THEREFORE, the Notice of Deficiency Determination dated April 3, 2014, and directed to [Redacted] and [Redacted] is AFFIRMED as MODIFIED.

Since Petitioners paid the deficiency in full as part of their appeal, IT IS ORDERED that Petitioners receive the following refund:

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	\$214	\$31	\$ 245
2011	148	15	163
2012	0	0	0
2013	0	0	<u>0</u>
		TOTAL DUE	\$ 408
		REMITTANCE	<u>(\$1,387)</u>
		REFUND	<u>(\$ 979)</u>

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

DATED this _____ day of _____ 2015.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2015, 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.
