

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
[Redacted])	DOCKET NO. 1-862-576-128
)	
Petitioners.)	DECISION
_____)	

[Redacted] (Petitioners) protested the Notice of Deficiency Determination dated August 31, 2017. Petitioners disagreed with the Tax Discovery Bureau (Bureau) adding income to their 2013 Idaho individual income tax return. The Tax Commission reviewed the mater and found that the cancellation of debt income was properly added to Petitioners' Idaho income tax return.

BACKGROUND

The Bureau received information from the Internal Revenue Service (IRS) showing that Petitioners did not include all their income on their 2013 federal income tax return. The Bureau reviewed the information and found that Petitioners omitted the same income on their 2013 Idaho individual income tax return. The Bureau corrected Petitioners' Idaho income tax return and sent them a letter stating that they owed additional tax to Idaho. Petitioners contacted the Bureau and explained the circumstances surrounding the omitted income. The Bureau explained Petitioners' options and then proceeded to prepare a Notice of Deficiency Determination. The Bureau sent Petitioners the Notice of Deficiency Determination, which Petitioners protested.

The Bureau acknowledged Petitioner's protest and referred the matter to the Tax Appeals Unit (Appeals). Appeals reviewed the matter and sent Petitioners a letter telling them of the options available for redetermining a Notice of Deficiency Determination. Petitioners contacted Appeals to discuss their case and better explain the situation that produced the questioned income.

[Redacted] was previously married. As part of her divorce, [Redacted] ex-husband was to pay the credit card debt he incurred after their separation. Petitioners stated they were unaware that [Redacted] ex-husband did not pay the debt until they tried to purchase a house. Petitioners stated they contacted [Redacted] ex-husband about the debt, but he refused to do anything. Petitioners then contacted the credit card company and struck a deal with them to pay part of the debt. The credit card company then cancelled the balance of the debt. Because the remaining debt was cancelled, the credit card company sent Petitioners a Form 1099-C. Petitioners did not report the debt cancellation income on their income tax return; however, the IRS later discovered the income and added it to Petitioners federal income tax return.

Petitioners stated they tried fighting this with the IRS, but because the card was in [Redacted] name and because they made the deal with the credit card company, the IRS refused to change its position. Petitioners said the IRS told them that the debt was a civil matter between [Redacted] and her ex-husband; outside the realm of taxation. Petitioners stated they paid the IRS and added the additional tax paid to the open claim they had against [Redacted] ex-husband. Petitioners stated they had already received a judgement against [Redacted] ex-husband and expected an on-going battle with him. Petitioners stated they would like some consideration from the State since the debt was not [Redacted] debt.

The Tax Commission asked Petitioners for a copy of the actual 1099-C; there was a question as to whose name the 1099 was issued. Petitioners got another copy from the credit card company and sent a copy to the Tax Commission. The name on the 1099-C was [Redacted] previous married name.

LAW AND ANALYSIS

Idaho Code § 63-3002 states that Idaho taxable income is to be identical to federal taxable

income, subject to certain modifications contained in the Idaho law. Therefore, when a change is made to a taxpayer's federal income tax return, the same change needs to be made to the taxpayer's Idaho income tax return, if it relates to the measurement of taxable income.

The amount reported on Form 1099-C is considered gross income to the individual named on the form. Because [Redacted] was the owner of the credit card, she was named as having the cancellation of debt income.

Petitioners argued the debt incurred on the credit card was debt created by [Redacted] ex-husband. Petitioners stated the debt was assigned to [Redacted] ex-husband in her divorce. Petitioners stated they negotiated a settlement with the credit card company when they found out [Redacted] ex-husband had not paid the debt. Petitioners stated they received a judgement against [Redacted] ex-husband for the credit card debt they paid. Petitioners were surprised when they received the 1099-C. Petitioners sent the 1099-C to [Redacted] ex-husband for his reporting, but they did not know whether he reported it. It was not until the IRS changed their 2013 federal income tax return that they found out the 1099-C may not have been reported.

Petitioners argued with the IRS but were told that because the credit card was [Redacted] and the 1099-C was in [Redacted] name, it was now a civil matter between [Redacted] and her ex-husband. The IRS was not going to enforce the terms of the divorce or the judgement Petitioners had against [Redacted] ex-husband.

Likewise, the Tax Commission's view of the matter is that it is unfortunate that certain parties choose to not adhere to the decisions or orders of the court. Their disrespect for the court and others results in additional adjudication and wasted time. Nevertheless, the Tax Commission is not an enforcer of a court's judgement. Therefore, the Tax Commission must follow the change made by the IRS and include the 1099-C in Petitioners' Idaho taxable income.

CONCLUSION

Petitioners’ 2013 federal income tax return was changed to include cancellation of debt income. Petitioners’ 2013 Idaho income tax return did not include the cancellation of debt income. Because Petitioners’ Idaho income tax return is supposed to mirror their federal income tax return in the measurement of taxable income, the Bureau corrected Petitioners’ Idaho income tax return. The Tax Commission’s review of the correction found the addition of the income appropriate and in accordance with Idaho statutes. The Tax Commission hereby upholds the Notice of Deficiency Determination.

THEREFORE, the Tax Commission AFFIRMS the Notice of Deficiency of Deficiency Determination dated August 31, 2017, directed to [Redacted] .

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>
2013	\$415	\$21	\$74	\$510

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

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

DATED this _____ day of _____ 2018.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2018,
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.
