

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

In the Matter of the Protest of	)	
[Redacted]	)	DOCKET NO. 1-355-495-424
	)	
Petitioners.	)	DECISION
_____	)	

[Redacted] (Petitioners) protested the Notice of Deficiency Determination dated March 12, 2018. Petitioners disagreed with the additional income the Tax Discovery Bureau (Bureau) added to their 2013 Idaho individual income tax return. The Tax Commission reviewed the matter and for the reasons stated upholds the Bureau’s modified Notice of Deficiency Determination.

**BACKGROUND**

The Bureau found that Petitioners did not file an Idaho income tax return for tax year 2013. The Bureau sent a letter to Petitioners asking about their requirement to file an Idaho income tax return. Petitioners subsequently filed their 2013 Idaho individual income tax return on April 4, 2017. Petitioners reported their wages, dividends, and a capital loss.

The Bureau reviewed Petitioners’ return and found Petitioners did not report all their income. Petitioners, specifically [Redacted] is a shareholder in [Redacted]

, a sub-chapter S corporation (S-Corp). Petitioners did not include the flow-through income from [Redacted]. The Bureau corrected Petitioners’ Idaho return and sent them a Notice of Deficiency Determination.

Petitioners protested the Notice of Deficiency Determination stating the income added by the Bureau was not accurate. Petitioners stated they were working with their accountant to correct their 2013 return.

The Bureau acknowledged Petitioners' protest and allowed additional time for them to amend their return. In the meantime, the Bureau received a copy of Petitioners' schedule K-1 from [Redacted]. Upon reviewing the K-1, the Bureau found that the flow-through income from [Redacted] was less than what the Bureau added to Petitioners' Idaho taxable income. The Bureau modified Petitioners' tax deficiency and sent Petitioners a letter stating the Notice of Deficiency Determination was reduced to the new amount. Petitioners still wanted to file an amended return and asked the Bureau for a copy of [Redacted] K-1. Petitioners also asked for more time to prepare their amended return. The Bureau sent Petitioners a copy of the K-1 and allowed them more time. The Bureau contacted Petitioners again and asked for a response to the modified tax deficiency. Petitioners did not respond. Seeing that Petitioners had plenty of time to prepare and submit their amended return, the Bureau referred the matter to the Tax Commission's Appeals Unit (Appeals).

Appeals sent Petitioners a letter that discussed the methods available for redetermining a protested Notice of Deficiency Determination. Petitioners did not respond. Considering the time Petitioners had to provide whatever additional information they wanted the Tax Commission to consider, the Tax Commission decided the matter based on the information available.

### **LAW AND ANALYSIS**

[Redacted] is a shareholder of [Redacted], an Idaho S-Corp. Generally, S-Corp income flows through to the S-Corp's shareholders in accordance with their ownership percentage. *See* Internal Revenue Code § 1366.

The Bureau found that [Redacted] had net distributable income from its business operations in tax year 2013. Therefore, Petitioners were required to report on their individual income tax return their portion of [Redacted] net distributable income. Petitioners did not report [Redacted] income on their income tax return.

The Bureau added [Redacted] income to Petitioners' return. Petitioners argued the income the Bureau added was not accurate. Petitioners said they would file an amended return to include their income from [Redacted]. Petitioners never filed that return.

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. *See 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 claimed the flow-through income was not accurate. Petitioners provided nothing to document the inaccuracies. Petitioners did not meet their burden.

The Bureau initially estimated Petitioners' share of the S-Corp's net distributable income. However, upon receiving a copy of the S-Corp's schedule K-1, the Bureau revised the amount of tax due. The Tax Commission reviewed the Bureau's modified adjustment and found it appropriate based upon the information available.

### CONCLUSION

[Redacted] is a shareholder of an Idaho S-Corp. The S-Corp reported net distributable income that was required to be reported on Petitioners' individual income tax return. Petitioners did not report the flow-through income nor did they provide anything to show the adjustment the Bureau made was incorrect. Therefore, the Tax Commission upholds the Bureau's determination.

The Bureau added interest and penalty to Petitioners' tax deficiency. The Tax Commission reviewed those additions and found them to be appropriate and in accordance with Idaho Code §§ 63-3045 and 63-3046, respectively.

THEREFORE, the Tax Commission AFFIRMS, as MODIFIED, the Notice of Deficiency Determination dated March 12, 2018, 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	\$1,513	\$76	\$312	\$1,901

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 \_\_\_\_\_ 2019.

IDAHO STATE TAX COMMISSION

\_\_\_\_\_  
COMMISSIONER

**CERTIFICATE OF SERVICE**

I hereby certify that on this \_\_\_\_\_ day of \_\_\_\_\_ 2019,  
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.

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