

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 0-404-604-928
[Redacted])	
)	
Petitioner.)	DECISION
_____)	

The Idaho State Tax Commission (Commission) reviewed your case and this is our final decision. We modify the Notice of Deficiency Determination (Notice) dated April 16, 2018. This means **you need to pay \$31** of tax, penalty, and interest for taxable year 2016. The Commission now DEMANDS immediate payment of this amount.

[Redacted] . (Petitioner) is an Idaho S-corporation registered with the Idaho Secretary of State as of February 1, 2008. **[Redacted]** is listed as the Registered Agent and President. Commission records show Petitioner registered as an S-Corporation but did not file Idaho corporate income tax returns for taxable years 2012 through 2016. The Commission’s Tax Discovery Bureau (Bureau) notified Petitioner of the missing returns but received no response. Therefore, the Bureau prepared returns for Petitioner and issued the Notice.

Petitioner protested the Notice and subsequently submitted to the Bureau, Idaho business returns for taxable years 2012 and 2013. The Bureau sent these returns to processing and notified Petitioner the Notice for taxable years 2012 and 2013 was cancelled. These years will not be mentioned further in this decision.

The Bureau made numerous requests for the Petitioner’s business returns for taxable years 2014 through 2016, but the requests went unanswered and the matter was referred for administrative review. Petitioner did not request an informal hearing during the administrative

review process, but did file its Idaho business returns for taxable years 2014 and 2015. The Notice for these years was also cancelled, leaving taxable year 2016 as the basis for this decision.

Idaho Code section 63-3030(4) states a tax return is required by:

Every corporation reporting as an S corporation pursuant to Internal Revenue Code sections 1361 through 1379 to the federal government, which is transacting business in this state, or is authorized to transact business in this state.

In the present matter, Petitioner did not contest its requirement to file Idaho corporate income tax returns, but rather contested the amount of net distributable income as determined by the Bureau. Petitioner stated it would provide the 2016 business income tax return but as of this writing, no return has been received.

The Bureau's calculation of Petitioner's net distributable income was an estimate based on the income of three Qualified Subchapter S Subsidiaries (Q-Subs) of [Redacted], for which [Redacted] is the Registered Agent and President. As subsidiaries of [Redacted], the three Q-Subs, [Redacted], [Redacted], and [Redacted], would be reporting all income and expenses under [Redacted].

For taxable year 2016, the distributable income consisted of estimated gross receipts from [Redacted] and [Redacted]. The Bureau estimated gross receipts for [Redacted] by multiplying the amount of wages reported to the Commission by a factor of two. For [Redacted], the gross receipts consisted of rents received on Forms 1099-Misc. In previous years gross receipts for [Redacted] were estimated based on the amounts paid out on Forms 1099-Misc. However, for taxable year 2016, Commission records show no 1099-Misc for [Redacted]. A deduction for payroll expense, based on the amount of wages reported to the Commission by [Redacted], was allowed as a business

expense. The Bureau also allowed a deduction for “other expenses.” This amount equaled 25% of the gross receipts for [Redacted] and [Redacted].

In Idaho, a 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). Petitioner in this case has not met its burden. The Commission reviewed the return the Bureau prepared for Petitioner and found it to be a reasonable representation of Petitioner’s net distributable income.

Since Petitioner is an S-corporation, its income flows through to its shareholders. Therefore, any income tax owed is paid by the shareholders. Idaho is authorized to tax income derived from sources within the state by a corporation that transacts business in the state or which has income attributable to this state. *See Idaho Code §63-3025(2)* The minimum tax required by this statute is \$20. *See Idaho Code §63-3025(3)*. Petitioner is required to pay the minimum tax for taxable year 2016.

Petitioner transacted business in Idaho during the year in question. Petitioner was required to file an Idaho corporate income tax return. But, because Petitioner is an S-corporation with resident shareholders, all its income flows through to the shareholders and is taxed on their individual income tax returns. Nevertheless, Petitioner is still required to file a return and pay the minimum franchise tax. Petitioner disagreed with the amount of net distributable income, but failed to provide anything to the contrary. Therefore, the Commission upholds the Bureau’s determination.

The Bureau added interest and penalty to Petitioner’s tax deficiency. The Commission reviewed those additions and found them to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

THEREFORE, the Notice dated April 16, 2018, and directed to [Redacted] is hereby MODIFIED, and as modified, APPROVED and MADE FINAL.

IT IS ORDERED that Petitioner pay the following tax, penalty, and interest computed to April 1, 2020.

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2016	\$20	\$10	\$1	\$31

An explanation of Petitioner's right to appeal this decision is enclosed.

DATED this _____ day of _____ 2020.

IDAHO STATE TAX COMMISSION

COMMISSIONER

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2020, 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] _____ .
[Redacted] _____
[Redacted] _____

Receipt No.
