

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

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Petitioners.

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DOCKET NO. 0-453-724-160

DECISION

On July 16, 2019, the Revenue Operations Division (Division) of the Idaho State Tax Commission (Tax Commission) issued a Notice of Deficiency Determination (Notice) to ██████████
██████████ (Petitioners), proposing income tax, penalty, and interest for tax year 2018 in the total amount of \$2,431. On July 22, 2019, Petitioners’ representative filed a timely appeal and petition for redetermination of the Notice. For the following reasons, the Tax Commission cancels the Notice.

Background

Both Arizona and Idaho are community property states. For tax year 2018, ██████████ was domiciled in Arizona and earned wages of \$158,478. His wife, ██████████, was domiciled in Idaho and earned \$63,870 in wages. ██████████ had a rental property in Idaho and earned net income of \$6,880. ██████████ filed a joint federal income tax return.

Petitioners reported total federal adjusted gross income of \$229,228, Arizona total adjusted gross income of \$193,853, and total Idaho adjusted gross income of \$149,989. On their Idaho individual income tax return, Petitioners claimed a \$2,431 credit for taxes paid to Arizona. The Division disallowed the credit claimed by Petitioners. The Division’s explanation was:

To receive the credit for taxes paid to another state, the same income must be taxed by more than one state. Since your Idaho income was not taxed by the other state, and that states income was not taxed by Idaho, you have no double-taxed income.

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Petitioners Protest

Petitioners' representative filed a timely appeal and petition for redetermination of the Notice. The legal and factual reasons for the disagreement were:

1. [REDACTED] was a full-year Arizona resident and was domiciled in Arizona in 2018.
2. [REDACTED] was a full-year Idaho resident and was domiciled in Idaho in 2018.
3. Both Idaho and Arizona are community property states.
4. [REDACTED] earned wages of \$158,478 in Arizona in 2018.
5. [REDACTED] reported on-half (79,239) of [REDACTED] Arizona wages on the Idaho tax as her community property interest in that income. His income was reported on line 4, Column B, of Form 39NR.
6. All of [REDACTED] Arizona wages are taxable in Arizona because the income was earned in Arizona.
7. In accordance with Idaho Code section 63-3029 and Rule 35.010.01.700 [REDACTED] [REDACTED] is allowed an Idaho credit for the Arizona income tax paid on the \$79,239 of Arizona source income that was also taxable to her in Idaho.

Relevant Tax Code and Analysis

Generally, when one spouse is domiciled in Idaho and the other is domiciled in another community property state, the Idaho resident reports half of the combined community income and the nonresident spouse reports half of the community income from Idaho sources. There are exceptions to the rule which do not apply in this case. Nine states have adopted the community property system: Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington and Wisconsin. The U.S. Territories of Guam and Puerto Rico are also community property jurisdictions.

As an Idaho resident, [REDACTED] must include her share of community income from all sources on the joint Idaho return ($\frac{1}{2}$ [REDACTED] wages \$31,935 + $\frac{1}{2}$ [REDACTED] wages \$79,239 + $\frac{1}{2}$ of the rental income \$3,440). As a nonresident, [REDACTED] is only required to include his share of the community income from Idaho sources on the joint Idaho return ($\frac{1}{2}$ [REDACTED]

wages \$31,935 + ½ of the rental income \$3,440). The total amount of income reported on their joint Idaho return is \$149,989.

As an Arizona resident, [REDACTED] must include his share of community income from all sources in the joint Arizona return (½ [REDACTED] wages \$79,239 + ½ [REDACTED] wages \$31,935 + ½ of the rental income \$3,440). As a nonresident, [REDACTED] is only required to include her share of the community income from Arizona sources on the joint Arizona return (½ [REDACTED] wages \$79,239).

When both Idaho and another state tax the same income, an Idaho resident may claim a credit for taxes paid to another state, subject to limitations (Idaho Code section 63-3029). Both the source state and Idaho must impose an income tax on the same income for the income to be subject to tax by both states.

The total amount of income reported on Petitioners' joint Idaho return is \$149,989. ([REDACTED] half of the community income from Arizona and Idaho sources totaling \$114,614 plus [REDACTED] half of the community income from Idaho sources totaling \$35,375). The total amount of income reported on Petitioners' joint Arizona return is \$193,853. ([REDACTED] half of the community income from Arizona and Idaho sources totaling \$114,614 plus [REDACTED] half of the community income from Idaho sources totaling \$35,375).

Conclusion

Petitioners' Arizona and Idaho income tax returns were prepared in accordance with community property laws. As a result, both Arizona and Idaho imposed an income tax the same income. Therefore, Petitioners are entitled to a credit for taxes paid to another state under Idaho Code section 63-3029. The Tax Commission has reviewed and verified the calculation for the credit for taxes paid to Arizona.

THEREFORE, the Notice of Deficiency Determination dated July 16, 2019, is hereby CANCELLED, in accordance with the provisions of this decision, and is AFFIRMED and MADE FINAL.

IDAHO STATE TAX COMMISSION

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:



Receipt No.
