

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 0-171-582-464
)	
Petitioners.)	DECISION
<hr style="width: 45%; margin-left: 0;"/>)	

(Petitioner) protested the Notice of Refund Determination (Notice) dated June 21, 2023. Petitioner disagreed with the changes the Revenue Operation Division (Division) made to its corporation income tax return filed for fiscal year ended September 30, 2021 (taxable year 2020). The Idaho State Tax Commission (Tax Commission) reviewed the matter and for the reason stated below upholds the Notice.

BACKGROUND

The Division found that Petitioner used a tax rate, other than that in Idaho Code to calculate its Idaho income tax for the taxable year 2020, which, in this case, is a fiscal year beginning October 1, 2020, and ending September 30, 2021. The Division, using 6.925%, the tax rate for taxable year 2020, changed Petitioner’s return and sent them a Notice, reducing the claimed refund by \$70,084. Petitioner protested the Notice and explained it used a “blended rate”, 6.607%, to calculate its Idaho income tax. To calculate the 6.607% blended rate, Petitioner prorated 6.925%, the 2020 tax rate, with ninety-two (92) days in 2020, and 6.5%, the 2021 tax rate, with two hundred seventy-three (273) days in 2021. Upon acknowledgment of Petitioner’s protest, the Division referred the matter to the Tax Commission’s Appeals Unit (Appeal) for administrative review.

Appeals sent Petitioner a letter explaining its options for redetermining a protested Notice. Petitioner responded and requested an informal hearing. The hearing was held on September 26, 2023. Having reviewed the file, the Tax Commission hereby issues its final decision.

ISSUE

The sole issue is whether Petitioner used a correct tax rate for taxable year 2020, beginning October 1, 2020, and ending September 30, 2021.

LAW AND ANALYSIS

The tax on corporate income is set forth in subsection (1) of Idaho Code section 63-3025, and states in relevant part: “The tax shall be equal to six and nine hundred twenty-five thousandths percent (6.925%) of Idaho taxable income.” Idaho Code section 63-3010 defines that the term “taxable year” with respect to any taxpayer means: (1) The taxable year of such taxpayer required pursuant to the Internal Revenue Code; or (2) Such other period as may be required by law; or (3) The calendar year.

In the present case, Petitioner argues for the taxable year 2020 that Internal Revenue Code (IRC) section 15¹ is applicable for its Idaho corporation income tax calculation because Idaho House Bill 380 (2021) was “in full force and effect on and after passage and approval, and retroactively to January 1, 2021”. Internal Revenue Code section 15 provides federal rules for calculation of liability if a tax rate changes during a taxpayer’s tax year. The Tax Cuts and Jobs Act (TCJA) changed² federal corporate income tax rate from 35% to 21%³. The TCJA guidance⁴

¹ IRC § 15 (a) GENERAL RULE. If any rate of tax imposed by this chapter changes, and if the taxable year includes the effective date of the change (unless that date is the first day of the taxable year), then—

(1) tentative taxes shall be computed by applying the rate for the period before the effective date of the change, and the rate for the period on and after such date, to the taxable income for the entire taxable year; and

(2) the tax for such taxable year shall be the sum of that proportion of each tentative tax which the number of days in each period bears to the number of days in the entire taxable year.

² TCJA § 13001(c) EFFECTIVE DATE –

(1) IN GENERAL. — Except as otherwise provided in this subsection, the amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 2017.

³ TCJA § 13001. 21-PERCENT CORPORATE TAX RATE.

(a) IN GENERAL. — Subsection (b) of section 11 is amended to read as follows: “(b) AMOUNT OF TAX. —The amount of the tax imposed by subsection (a) shall be 21 percent of taxable income.”.

⁴ Also called the IRS Notice 2018-38.

issued in 2018 by the Internal Revenue Service (IRS) outlines application of section 15 for fiscal-year corporations, which provides examples for proration of federal taxable income, not tax rate.

Idaho House Bill 380 (2021) changed the Idaho corporate income tax rate from 6.925% to 6.5%. Petitioner believes that its application of the blended rate is in compliance with IRC section 15, so as with Idaho Code section 63-3002 since, Petitioner says in its protest, “the Idaho legislature’s intent is to conform Idaho income tax law to the Internal Revenue Code”.

Idaho Code section 63-3002 states in part: “It is the intent of the legislature by the adoption of this act, insofar as possible to make the provisions of the Idaho act identical to the provisions of the Federal Internal Revenue Code **relating to the measurement of taxable income**, to the end that the taxable income reported **each taxable year** by a taxpayer to the internal revenue service shall be the identical sum reported to this state, **subject only to modifications contained in the Idaho law...**” (emphasis added). Idaho Code section 63-3002 is applicable in determining “taxable income”, but not “tax rate”, for each taxable year. No section of the Idaho Code allows a taxpayer to prorate its tax rate for any taxable year.

CONCLUSION

The Tax Commission finds that the “blended rate” Petitioner used in its calculation of Idaho corporation income tax for taxable year 2020 is not in compliance with the Idaho Income Tax Act. As defined in Idaho Code section 63-3025, 6.925% is the tax rate for taxable year 2020, which, in this case, is a fiscal year beginning October 1, 2020, and ending September 30, 2021. The 6.925% tax rate is applicable to the entire taxable year of 2020 without proration of any sort. Therefore, the Tax Commission upholds the Notice.

The Notice reduced Petitioner’s refund, therefore no DEMAND for payment is made or necessary.

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

DATED this _____ day of _____ 2023.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2023,
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:

