

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
[REDACTED] [REDACTED] [REDACTED])	DOCKET NO. 0-259-429-376
Petitioner.)	DECISION
)	

The attorney-in-fact (AIF) for [REDACTED] [REDACTED] [REDACTED] (the LLC) protested the Notice of Deficiency Determination (Notice) dated October 1, 2024. The Tax Commission reviewed the matter and hereby issues its final decision to cancel the Notice.

Background

During a review of taxpayer information, the Tax Commission’s Tax Discovery Bureau (Bureau) found information indicating that the LLC may have been required to file returns for tax years 2018 through 2022 but could not locate any returns where the LLC’s income had been reported. On August 5, 2024, the Bureau sent the LLC a letter asking about the missing returns. The LLC did not file returns in response but named AIF to represent the business before the Tax Commission. AIF sent the Bureau an email explaining that the LLC “ha[d] been treated as a disregarded entity for tax purposes since 2018” with income and expenses reported on the owners’ individual income tax returns. The Bureau researched but was unable to locate any individual income tax returns on which the LLC’s income and expenses had been reported for tax years 2018 through 2022.

On October 1, 2024, the Bureau issued the Notice, asserting income by a partnership and passed through to the owners. The Bureau treated the LLC as a partnership based on information obtained from the Idaho Secretary of State’s website. The Bureau estimated pass-through income based on income documents and Form 967, *Idaho Annual Withholding Report*. The Bureau also

asserted a penalty for failing to file partnership returns. AIF submitted a request for redetermination. He stated the following:

- The LLC consisted of two members, a married couple.
- Beginning in 2018, the LLC was treated as a disregarded entity for tax purposes (AIF referenced IRS Revenue Procedure 2002-69). The LLC's taxable income was reported on Schedule C attached to the members' individual returns.
- The LLC was not required to file a partnership return for the years listed in the Notice.
- The penalty imposed does not apply.

The Bureau sent a letter acknowledging the timely protest and provided a schedule for filing correct returns. The letter indicated that if the requested information was not received, the Bureau would transfer the matter to the Tax Commission's Tax Appeals unit (Appeals) for resolution.

AIF submitted individual income tax returns for tax years 2018 in early January 2025, 2019 in late January 2025, and 2020 in early February 2025 generally following the Bureau's prescribed schedule. The LLC's income and expenses were reported on the owners' Schedule C. After a reminder and extension to file the next return, AIF submitted a return for 2021 in late March 2025. After receiving each return, the Bureau sent a letter cancelling the Notice for the specific year for which the return had been filed.

In May 2025, AIF informed the Bureau that he had not received from the owners the information needed to file a correct return for 2022. After another month, the final return had not been filed, so the Bureau transferred the matter to Appeals. In August 2025, Appeals sent a letter providing the options available for redetermining a protested Notice. AIF contacted Appeals, stating that the owners still had not provided the necessary information, but he was willing to reach out to the owners again. Appeals granted an extension to file the last missing return, but it was

never filed. In the absence of an actual return, the Tax Commission must make its decision based on the information currently available.

Law & Analysis

The Bureau's Notice dated October 1, 2024, included tax years 2018, 2019, 2020, 2021, and 2022. Returns including income and expenses for the LLC were filed for 2018, 2019, 2020, and 2021. The Bureau cancelled the Notice for these specific years after receiving each year's return. These years will not be mentioned further in this decision. The only year included in the Notice left unfiled is 2022.

When the Bureau prepared the Notice, the LLC's had not filed returns for any previous years. At the time, the Bureau used information from the Idaho Secretary of State's website to determine that the LLC should be treated as a partnership for tax purposes. The same owners of the LLC also wholly owned another business which had previously filed as a partnership. In this case, treatment of the LLC as a partnership was consistent with information available at the time. AIF mentioned IRS Revenue Procedure 2002-69 in communications with the Bureau. This Revenue Procedure states that the IRS will respect a taxpayer's treatment of a business entity wholly owned by a husband and wife as community property under the laws of a state. The LLC in this case is a qualified entity under Revenue Procedure 2002-69.

Once the first missing return was filed including the LLC's income and expenses on the owners' Schedule C, the entity was considered a sole proprietorship wholly owned by a married couple for tax purposes. Because of this, the Notice asserting partnership income passed through to the owners is incorrect and should be canceled. Additionally, because the LLC does not report as a partnership and was not required to file a partnership return for 2022, the penalty included for failure to file a partnership return is not applicable.

The Tax Commission will estimate the LLC's income and expenses and include them in a decision for a separate but related Appeals docket, 0-277-844-992.

Conclusion

With the filing of their 2018 income tax return, the LLC's owners, a married couple, established the reporting method for the LLC as a sole proprietorship.

THEREFORE, the Notice dated October 1, 2024, and directed to [REDACTED] [REDACTED] [REDACTED] is hereby CANCELED.

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

DATED this _____ day of _____ 2026.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2026,
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.

[REDACTED]

[REDACTED]