BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	)	
	)	DOCKET NO. 0-523-523-072
[redacted]	)	
	)	
Petitioner.	)	DECISION
	)	

The Tax Discovery Audit Bureau (Bureau) sent [redacted] (Petitioner) a Notice of Deficiency Determination (Notice) for tax years 2017 through 2023. Petitioner protested, stating he did not believe he had a filing requirement with the state of Idaho. The Tax Commission has reviewed the matter and hereby issues its final decision in Petitioner's favor.

BACKGROUND

Petitioner is a Washington resident and has never filed Idaho income tax returns. In 2023, Petitioner filed a Form 967, "Idaho Annual Withholding Report." This was to report Idaho wages and income tax withholding from his sole-proprietorship, [redacted] While reviewing the withholding report, the Bureau discovered 1099s issued to Petitioner from Idaho based companies. The Bureau sent Petitioner a letter, stating that the Tax Commission has information that shows he might be required to file Idaho income tax returns. The Bureau requested Petitioner to fill out a response form to indicate if he: will file returns by a certain date, is unsure if he needs to file, or believe he is not required to file. Petitioner did not respond, so the Bureau prepared the returns for him using information available to the Tax Commission.

The Bureau used 1099s issued to Petitioner during the years in question to estimate gross receipts and allowed for 25% deduction for business expenses. The Bureau also allowed for payroll expenses shown on the 2023 withholding report. The Bureau calculated Petitioner's estimated Idaho apportioned taxable income and sent him a Notice. Petitioner protested the Notice, stating he did not believe he was required to file because all the business operations were in Washington. The Bureau acknowledged the protest and transferred the case to the Tax Commission's Appeals Unit (Appeals) for administrative review. Petitioner and Appeals participated in an informal hearing to discuss the operations of [redacted] in detail. Petitioner owns and operates a small acreage logging and brush clearing sole proprietorship. They typically will acquire permits to log and brush clear on small privately owned lots in the state of Washington and sell the logs to mills for processing. Petitioner would then be paid by either the landowner or the mill directly. The 1099s in question were from large mills that operate throughout the Northwest but are based in Idaho. Petitioner insisted they never logged in Idaho, as it would require a whole different permitting process. The Tax Commission has reviewed all the relevant information and will discuss the taxability of the income in question.

LAW AND ANALYSIS

While the Bureau acknowledges Petitioner was not domiciled in Idaho, it is believed they received Idaho sourced income and were required to file nonresident income tax returns for the years in question. Idaho Code section 63-3026A(3)(a) defines Idaho sourced income for nonresidents:

> (a) Income shall be considered derived from or relating to sources within Idaho when such income is attributable to or resulting from:
> (i) Any business, trade, profession or occupation conducted or carried on in this state, including the distributive share of partnership income and deductions, and the pro rata share of S corporation income and deductions. Partnership income, including guaranteed payments pursuant to section 707 of the Internal Revenue Code, is sourced to Idaho based upon the Idaho apportionment factor of the partnership.[1]

[1] Idaho Code section 63-3026A(3) continues describing exceptions and additions to this rule, but they are not relevant to Petitioner's situation.

The 1099s issued to Petitioner did not indicate which state the income was incurred. The 1099s Petitioner received were indeed from Idaho based companies, but they were not 100% apportioned to Idaho. While receiving a 1099 from a 100% apportioned Idaho company could indicate Idaho sourced income, being an Idaho based company alone does not meet this threshold. The Bureau stated in the Notice that the Form 967 indicated income activity in Idaho. During the hearing, Petitioner stated he filed the Form 967 because he had one employee that was a resident of Idaho. Because the employee was an Idaho resident, he requested Idaho income taxes to be withheld for him for the work he did in Washington. Washington does not impose state income taxes, so he would not be able to claim a tax credit for work done in Washington. To prevent a large Idaho tax bill, he requested his employer to withhold Idaho income taxes for him. With the oral testimony provided and all the information available, the Tax Commission concludes that the 1099s received by Petitioner were not Idaho sourced income. Therefore, in contrast to the Bureau's conclusion, the Tax Commission finds that Petitioner did not have a filing requirement for the years in question.

CONCLUSION

The Bureau sent Petitioner a Notice for tax years 2017 through 2023. Petitioner provided information to show he did not have an income tax filing requirement with the state of Idaho. Therefore, the Notice dated March 10, 2025, is not warranted.

No DEMAND for payment is made.

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:

[redacted]

Receipt No.

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