

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 0-685-360-128
)	
Petitioners.)	DECISION
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(Petitioners) received a Notice of Deficiency Determination (Notice) dated January 20, 2023. The Income Tax Audit Bureau (Bureau) disallowed deductions and tax credits associated with a Polaris UTV (UTV) and storage shed that flowed through from their S-Corporation. The Tax Commission, having modified the adjustments on the S-Corporation likewise modifies the adjustments on Petitioners’ individual income tax returns.

BACKGROUND

Petitioners are shareholders of (Entity). The Bureau reviewed Entity’s income tax returns for the tax year 2021. Specifically, the Bureau examined section 179 depreciation and Idaho investment tax credits (ITC) on purchases of a UTV and storage shed.

The Bureau disallowed the depreciation and ITC Entity claimed, so Petitioners’ income tax returns were adjusted for the flow-through income and credits claimed on their individual return. (An S-Corporation flows through income and certain credits to its shareholders.) Petitioners did not protest the adjustment, but Entity did protest. Because Entity protested the adjustment, any changes made to Entity’s income tax returns will naturally flow through to Petitioners.

The Tax Commission held a hearing on the issue where Entity argued its case. The Tax Commission ruled on the adjustments in its decision on Docket Number 1-759-101-952. In its decision the Tax Commission modified the Bureau’s adjustments by allowing section 179 deduction on the storage shed.

LAW AND ANALYSIS

S-Corporations are flow-through entities, meaning the tax attributes of the S-Corp flow-through to its shareholders and are reported by the shareholders. *See* Internal Revenue Code Subchapter S. As a result, any changes to Entity's return requires a change to the shareholders' return.

Regarding this case, the Tax Commission modified the adjustments Entity claimed on their Idaho income tax return. Therefore, the Tax Commission makes the same change to Petitioners' 2021 Idaho individual income tax return.

CONCLUSION

Petitioners are shareholders of an Idaho S-Corporation, As such
Petitioners are required to report the flow-through items of Entity on their income tax return. Because the Tax Commission adjusted Entity's deductions and credits, Petitioners' individual income tax returns also need to be changed. Therefore, in accordance with the Tax Commission's decision on Docket Number 1-759-101-952, the Tax Commission modifies the Notice.

THEREFORE, the Notice of Deficiency Determination dated January 20, 2023, directed to
is AFFIRMED as MODIFIED by this decision.

IT IS ORDERED that Petitioners pay the following tax, interest, and penalty.

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2021	\$1,001	\$50	\$73	\$1,124

Interest is calculated through January 11, 2024.

An explanation of Petitioners' 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:

Receipt No.
