

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
██████████)	DOCKET NO. 0-937-223-168
)	
Petitioner.)	DECISION
_____)	

██████████ (Petitioner) protested the Notice of Deficiency Determination (Notice) for tax years 2020 and 2021 dated March 1, 2024. The Tax Commission reviewed the matter and hereby issues its final decision to uphold the Notice.

Background

Petitioner claimed deductions for qualified retirement benefits on Idaho income tax returns he filed for tax years 2020 and 2021 (\$11,255 and \$12,546, respectively). The Tax Commission’s Income Tax Audit Bureau (Audit) reviewed these returns and determined that Petitioner did not receive retirement benefits that qualified for the deduction. Audit sent a Billing Letter on January 25, 2024, notifying Petitioner of the error and disallowing the deduction. The Billing Letter stated that if Audit did not receive a response by February 15, 2024, a Notice of Deficiency Determination would be issued. Available information shows that Petitioner attempted to contact Audit on or around January 29, 2024, and Audit attempted to respond. There is no indication of what messages may have been left by either party.

Petitioner sent a letter on February 26, 2024, expressing disagreement with the adjustments in the Billing Letter. Audit received this letter on March 1, 2024, the same day that the Notice was mailed to Petitioner.

On May 1, 2024, Petitioner sent a message through the Tax Commission’s website about his retirement benefits. Audit responded to the electronic message on May 6, 2024, with an explanation of the adjustment in the Notice.

Also on May 1, 2024, Petitioner mailed a letter protesting the Notice; Audit received this letter on May 7, 2024. On May 13, 2024, Audit sent a letter acknowledging Petitioner’s protest, informing him that the determination did not change, and providing some further explanation of the adjustment in the Notice. Audit offered Petitioner options for withdrawing his protest and stated that if he did not withdraw, the case would be transferred to the Tax Commission’s Appeals unit (Appeals) to continue the redetermination process. Petitioner did not withdraw his protest, so Audit forwarded the case to Appeals.

On July 15, 2024, Appeals sent a letter outlining the options available for redetermining a protested Notice. Appeals also included information about the qualified retirement benefits deduction with the letter. This letter garnered no response, so the Tax Commission must make a decision based on the information currently available.

Law & Analysis

Petitioner claimed a retirement benefits deduction of \$11,255 on his 2020 Idaho income tax return and a deduction of \$12,546 on his 2021 return. Idaho Code section 63-3022A allows a taxpayer to claim a deduction in calculating Idaho taxable income for certain specific (i.e., “qualified”) retirement benefits received during the taxable year. There are several requirements that must be met for the deduction to be allowed.

First, the retirement benefits in question must be included in the taxpayer’s federal taxable income. Second, the recipient of the benefits must be at least 65 years of age, or be at least 62 years old and disabled, when they receive the benefits. Third, the retirement benefits received must be

“qualified” benefits, which are limited to those that are paid to the following categories of individuals:

- A retired federal employee by the United States under the Civil Service Retirement System, the Foreign Service Retirement and Disability System, or the offset program of one of these two
- A retired member of the military service by the United States government
- A retired firefighter from the Firemen’s Retirement Fund of the State of Idaho
- A retired police officer of a city in Idaho by one of the following:
 - A city or its agent from a policeman’s retirement fund that no longer admits new members and was administered by a city in Idaho on January 1, 2012
 - A policeman’s retirement fund that no longer admits new members and was administered by the Public Employee Retirement System of Idaho on January 1, 2012
 - The Public Employee Retirement System of Idaho for employment in Idaho that was not included in the federal Social Security system
- The un-remarried widow or widower of a retiree described above

The deduction is limited based on other benefits received, including those from Federal Railroad Retirement and Social Security.

In calculating the deductions on his Idaho income tax returns, Petitioner claimed to have received \$30,583 of qualified benefits during tax year 2020 and \$28,226 of qualified benefits during tax year 2021. The amounts used in his calculations were included in taxable income on his federal income tax returns for each year. According to available information, Petitioner was born in 1954, making him at least 65 years old when he received his retirement benefits in 2020 and 2021. Based on the 1099-Rs Petitioner provided with his returns, the benefits he claimed as “qualified” in his calculations of the deduction were paid by Prudential Retirement, which means that they were not actually qualified benefits as defined above. Therefore, the Tax Commission determined that Petitioner is not eligible to claim the retirement benefits deduction for tax year 2020 or 2021.

Petitioner wrote in his protest that he was “already of age to do the withdrawals from [his] 401 which is from a qualified account.” Petitioner is likely referring to a *qualified retirement plan*,

which “refers to employer-sponsored plans that satisfy requirements in the Internal Revenue Code for receiving tax-deferred treatment.”¹ 401(k) plans often fall under this category. However, the fact that a plan qualifies for tax-deferred treatment for federal income tax purposes does not mean that it qualified for the retirement benefits deduction for Idaho income tax purposes. In Petitioner’s case, it does not.

Audit added interest and penalty to Petitioner’s tax deficiency. The Tax Commission reviewed those additions and finds them to be appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046, respectively.

Conclusion

Petitioner claimed a retirement benefits deduction for tax years 2020 and 2021 but did not receive qualifying benefits.

THEREFORE, the Notice dated March 1, 2024, and directed to [REDACTED] is hereby UPHeld and MADE FINAL.

IT IS ORDERED that Petitioner pay the following tax, penalty, and interest:

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2020	\$766	\$38	\$86	\$890
2021	178	0	16	194
				<u>\$1,084</u>

The Tax Commission DEMANDS immediate payment of this amount. Interest is calculated in accordance with Idaho Code section 63-3045.

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

DATED this _____ day of _____ 2024.

¹ Retrieved from https://www.law.cornell.edu/wex/qualified_retirement_plan#:~:text=A%20qualified%20retirement%20plan%20refers,defined%20benefit%20plans%20like%20pensions on August 20, 2024.

CERTIFICATE OF SERVICE

I hereby certify that on this _____ day of _____ 2024,
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.
