BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of [redacted] Petitioners.	DOCKET NO. 0-937-747-456 DECISION

[redacted] (Petitioners) protested the Notice of Deficiency Determination (Notice) dated May 9, 2024, issued by the Income Tax Audit Bureau (Bureau). Petitioners disagreed with all the Bureau's adjustments[1], except for the adjustment to affected business entity credit. The Idaho State Tax Commission (Tax Commission), having decided the issue with the partnerships and for the reason stated below, modifies the Notice.

BACKGROUND

Ms. [redacted] is a shareholder of the partnerships: [redacted] and [redacted] The Bureau adjusted these partnerships' returns[3] and made flow-through adjustments of these in Petitioners' Notice. The partnerships disagreed with the Notices and provided additional information but did not request an informal hearing. The Tax Commission's decision on Docket Numbers 0-468-378-624 and 1-810-555-904 affirmed the Bureau's adjustments to the partnerships.

[1] The Bureau's adjustments include the flow-through adjustments from partnerships, Idaho capital gains deduction, and affected business entity (ABE) credit.

[2] [redacted] owned an affected business entity (ABE)[2] for tax year 2021, and the Bureau allowed Petitioner to claim credit for ABE tax paid on their behalf in the Notice. For tax year 2023, because of the Bureau's adjustments to the ABE, the amount of the ABE tax has changed. The Bureau adjusted the amount of credit for the ABE tax paid on Petitioners' behalf on the Notice. Petitioners agreed with these adjustments; therefore, this decision will not address these adjustments any further.

[3] The Bureau adjusted [redacted] Idaho returns for Idaho investment tax credit (ITC) and its recapture and [redacted] Idaho returns for net rental income, Idaho bonus depreciation addition and subtraction, and ITC.

In response to the Notice, Petitioners' representative disagreed with the Bureau's flow-through adjustments for the years under current review and the disallowance of the Idaho capital gains deductions Petitioners claimed for tax year 2022. The Bureau acknowledged the protest and referred the matter to the Tax Commission's Appeals Unit (Appeals) for administrative review.

Appeals sent Petitioners a letter explaining the options available for redetermining a Notice. Petitioners responded and provided additional information but did not request an informal hearing. Having reviewed the matter, the Tax Commission hereby issues its final decision.

LAW AND ANALYSIS

[redacted] and [redacted] are partnerships, flow-through entities. All the partnerships' tax attributes flow-through to Petitioners at the percentage of their distributive share. As a result, any change to these partnerships' returns requires a change to the shareholders' returns.

In this case, the Tax Commission upheld the changes to the partnerships' returns. Therefore, the Tax Commission also upholds the changes passed through to Petitioners' 2020 through 2022 Idaho individual income tax returns.

As for the Idaho capital gain deduction Petitioners claimed on their 2022 Idaho individual income tax return, Idaho Code section 63-3022H states in pertinent part under its subsection,

> (3) Property held by an estate, trust, S corporation, partnership, limited liability company or an individual is "qualified property" under this section if the property had an Idaho situs at the time of sale and is:
>
> (b) Tangible personal property used in Idaho for at least twelve (12) months by a revenue-producing enterprise;

Idaho Code section 63-3022H (5) defines "revenue-producing enterprise" as:

> (a) The production, assembly, fabrication, manufacture, or processing of any agricultural, mineral or manufactured product;

(b) The storage, warehousing, distribution, or sale at wholesale of any products of agriculture, mining or manufacturing;
(c) The feeding of livestock at a feedlot;
(d) The operation of laboratories or other facilities for scientific, agricultural, animal husbandry, or industrial research, development, or testing.

Petitioners claimed the Idaho capital gain deduction for the gain from sales of "2011 Cessna 525C", owned by [redacted] ([redacted] This pass-through entity sold the Cessna in 2022 and passed the gain through to Ms. [redacted] as she was a shareholder of the pass-through entity. The representative argued that [redacted] was a revenue-producing enterprise as defined under Idaho Code section 63-3022H(5) and held the Cessna in question for at least twelve months; therefore, the representative argued that Ms. [redacted] claim for the Idaho capital gain deduction should be allowed.

[redacted] formerly called [redacted].[4], is an S-Corporation, who is a distributor of [redacted] products in Idaho Falls. The representative explained in the protest that [redacted] conducted their business operations through [redacted].[5] ([redacted] and [redacted] ([redacted] reprocesses the [redacted] that would otherwise be considered waste through a [redacted] process so that it can be recertified through their on-site laboratory, approved by the U.S. Environmental Protection Agency, to meet the market specifications required for resale. [redacted] physical location of operations is on [redacted] land in [redacted] Arizona, and its corporate

---

[4] [redacted] doing business as [redacted] is a [redacted] distributor based in [redacted] Idaho.

[5] [redacted] is a qualified subchapter S subsidiary (QSub), who was owned by [redacted] a QSub of [redacted] The representative provided federal Form 8869, filed by [redacted] electing [redacted] as a QSub, effective January 1, 2021.

[6] [redacted] is a disregarded entity, ultimately owned by [redacted] The representative provided federal Form 8832 filed by [redacted] electing [redacted] as a domestic disregarded entity, effective beginning July 18, 2019.

headquarters are in [redacted] Idaho. [redacted] sells and transports [redacted] and [redacted] products to customers. [redacted] also operates "[redacted] a controlled [redacted] access system designed for commercial and fleet vehicles to automate unattended [redacted] stations where drivers can access [redacted] via a secured card system[7]. [redacted] physical locations of operations are throughout Arizona, Colorado, Idaho, Nevada, New Mexico, Texas, Utah, and Oklahoma, and its corporate headquarters are in [redacted] Idaho. The representative argued that [redacted] used the Cessna within their business operations and held it in a hangar in [redacted] near the corporate headquarters for at least 12 months after they acquired it on December 18, 2018. The representative provided by-state details of [redacted] apportionment factor, showing that they reported the Cessna as an Idaho property and included total cost of the Cessna in the property numerator upon acquisition and prior to the sale. The Tax Commission finds that [redacted] including [redacted] and [redacted] met the definition as a revenue-producing enterprise and held the Cessna for at least 12 months in Idaho. Therefore, the Tax Commission determines that the Idaho capital gain deduction is allowable for the gain from the sale of the 2011 Cessna 525C.

CONCLUSION

The Tax Commission upholds the Bureau's flow-through adjustments to Petitioners' individual returns based on its decision on Docket Numbers 0-468-378-624 and 1-810-555-904. The Tax Commission finds that the Idaho capital gain deduction is allowable for the gain from the sale of the 2011 Cessna 525C.

---

[7] The representative explained that the secured [redacted] system, "[redacted] allows fleet managers to monitor [redacted] and costs more accurately and effectively.

The Bureau added interest and a five percent (5%) negligence penalty to Petitioners' Idaho tax due. The representative requested the Tax Commission abate the negligence penalty as Petitioners timely filed their Idaho return, paid tax in full, and acted in good faith to report all taxable income.

Idaho Code section 63-3046(d)(7) provides,

> The state tax commission may waive all or any part of the addition to tax provided by this section on a showing by the taxpayer that there was reasonable cause for the understatement (or part thereof) and that the taxpayer acted in good faith.

Most of Petitioners' adjustments are due to the adjustments the Bureau made to the pass-through entities, in which Ms. [redacted] owned minority shares for the years under current review. The minority shares did not give Ms. [redacted] the controlling power to prevent the adjustments the Bureau made to the pass-through entities. The Tax Commission finds that there was reasonable cause for the understatement (or part thereof) and Petitioner acted in good faith. Therefore, the Tax Commission abates the penalty.

The Tax Commission reviewed addition of interest and found it in accordance with Idaho Code section 63-3045.

THEREFORE, the Tax Commission MODIFIES the Notice dated May 9, 2024, directed to Petitioners.

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

YEAR	TAX	PENALTY	INTEREST	TOTAL
2020	$3,101	$0	$333	$3,434
2021	13,486	0	1,163	14,649
2022	2,126	0	107	2,233
			TOTAL DUE	$20,316

DEMAND for immediate payment of the foregoing amount is hereby made and given.

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

DATED this ________ day of _________________________ 2025.

IDAHO STATE TAX COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that on this ________ day of ______________________________ 2025, 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]

[redacted]

Receipt No.

____

____