

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of

██████████ ██████████ ██████████ ██████████

Petitioners.

DOCKET NO. 0-941-286-400

DECISION

██████████ ██████████ ██████████ ██████████ (Petitioners) protested the Notice of Deficiency Determination (Notice) for tax years 2020 and 2021 dated January 11, 2024. This protest carried over to a modified Notice issued May 17, 2024. The Tax Commission reviewed the matter and hereby issues its final decision to uphold the modified Notice.

Background

Mr. ██████████ was the sole owner of ██████████ ██████████ ██████████ (██████████) during the company's fiscal years ending September 30, 2020, (FY 2019) and September 30, 2021 (FY 2020).

██████████ filed returns claiming credits for Idaho research activities (both FY 2019 and 2020) and investment tax credit (FY 2019). The Tax Commission's Income Tax Audit Bureau (Audit) reviewed these returns and disallowed these credits. Since ██████████ was a flow-through entity, Audit assigned to Mr. ██████████ his distributive share of the additional tax due.

The ██████████ protested the adjustments, as did ██████████ ██████████ provided additional information, and Audit issued a modified Notice to ██████████ which still disallowed the Idaho research credit for both years but reduced the adjustment for ITC. Audit again assigned to Mr. ██████████ his distributive share of the adjustments in a modified Notice. At the same time, Audit issued a separate Notice to another S corporation (██████████ ██████████ ██████████) of which Mr. ██████████ was the sole shareholder for tax year 2021. The pass-through adjustments from that Notice were also included on the ██████████ modified Notice. ██████████ ██████████ ██████████ did not protest the Notice in that case.

■■■■ continued its protest of the modified Notice issued in its case. The ■■■■ did not respond to their modified Notice, but their protest of the original Notice was automatically carried over to the modified Notice.

■■■■ went through the Tax Commission's administrative appeal process. The Tax Commission ruled on Audit's adjustments to the ■■■■ returns in its decision on Appeals Docket Number 1-588-651-008. The Tax Commission upheld the modified Notice in that case.

Mr. and Mrs. ■■■■ were sent a letter outlining the options available to redetermine a protested Notice, but they did not respond. The Tax Commission therefore must make its decision based on the information currently available.

Law & Analysis

■■■■ filed S corporation income tax returns for FY 2019 and FY 2020. As an S corporation, ■■■■ was a flow-through entity, meaning that the tax attributes of the S corporation flow to the shareholders to be reported on their individual income tax returns. As a result, any changes to a ■■■■ S corporation return requires a change to the shareholder's return. Mr. ■■■■ was the sole shareholder during the years in question. The Tax Commission determined that ■■■■ was not eligible to claim Idaho research credit and that ■■■■ had claimed more ITC than it was eligible to claim. Those adjustments must be passed through to Mr. ■■■■ as the sole shareholder at the time.

■■■■ ■■■■ ■■■■ filed an S corporation income tax return as an affected business entity for the year in question. As such, the tax due on Mr. ■■■■ distributive share of Idaho taxable income was calculated at the entity level, and the tax due was paid by the entity. The additional tax due must still be reported on the ■■■■ individual income tax return, but they are allowed a credit for the tax that was paid by the entity.

The Bureau added interest to Petitioners' tax deficiency. The Tax Commission reviewed this addition and finds it to be appropriate and in accordance with Idaho Code section 63-3045.

Conclusion

Mr. [REDACTED] was the sole owner of [REDACTED] and [REDACTED] [REDACTED] [REDACTED] which filed returns as S corporations. The Tax Commission adjusted returns filed by the businesses, resulting in corresponding changes to the [REDACTED] returns for 2020 and 2021.

THEREFORE, the modified Notice dated May 17, 2024, is hereby UPHeld and MADE FINAL.

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

<u>YEAR</u>	<u>TAX</u>	<u>INTEREST</u>	<u>TOTAL</u>
2020	\$49,259	\$5,378	\$54,637
2021	44,146	3,887	<u>48,033</u>
			<u>\$102,670</u>

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

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:



Receipt No.
