

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of)	
)	DOCKET NO. 1-070-777-344
)	
Petitioners.)	DECISION
<hr style="width: 45%; margin-left: 0;"/>)	

(Petitioners) protested the Notice of Deficiency Determination (Notice) dated December 6, 2022. Petitioners disagreed with the flow-through adjustments from an S-Corporation (S-Corp). The Idaho State Tax Commission (Tax Commission), having decided the issue with the S-Corp, likewise upholds the Notice.

BACKGROUND

Petitioners are shareholders in (an S-Corp. The Income Tax Audit Bureau (Bureau) reviewed S-Corp income tax returns for the tax years 2018, 2019, and 2020. Specifically, the Bureau examined the credit for Idaho research activities (Idaho research credit).

The Bureau disallowed the Idaho research credit claimed; therefore, the Bureau adjusted the flow-through credit claimed on Petitioners’ individual income tax returns for the tax years shown in the Notice. Petitioners protested the Bureau’s flow-through credit adjustment as did

The Tax Commission held a hearing on the issue where argued its case. The Tax Commission ruled on the Idaho research credit adjustment in its decision on Docket Number 1-854-194-688. In its decision, the Tax Commission affirmed the Bureau’s adjustment to the Idaho research credit.

LAW AND ANALYSIS

is a Subchapter S Corporation (S-Corp), a flow-through entity. All tax attributes flow-through to Petitioners at the percentage of their distributive share to be taxed at the individual level¹. As a result, any changes to the S-Corp return requires a change in the shareholder's return.

In this case, the Tax Commission changed the credit claimed for research activities in Idaho. Therefore, the Tax Commission makes the same change to Petitioners' 2018, 2019, and 2020 Idaho individual income tax returns.

CONCLUSION

Petitioners are shareholders of an Idaho S-Corp, As such Petitioners are required to report the flow-through items of on their individual income tax return. Because the Tax Commission disallowed the Idaho research credit claimed by Petitioners' individual income tax returns also need to be changed. Therefore, in accordance with the Tax Commission's decision on Docket No. 1-854-194-688, the Tax Commission adjusts Petitioners' individual income tax returns.

The Bureau added interest and penalty to Petitioners' Idaho tax due. The Tax Commission reviewed those additions and found them appropriate and in accordance with Idaho Code sections 63-3045 and 63-3046. Interest is computed to April 17, 2024.

THEREFORE, the Tax Commission AFFIRMS the Notice dated December 6, 2022, directed to

¹ Internal Revenue Code Subchapter S – Tax Treatment of S Corporations and Their Shareholders

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

<u>YEAR</u>	<u>TAX</u>	<u>PENALTY</u>	<u>INTEREST</u>	<u>TOTAL</u>
2018	\$1,982	\$99	\$383	\$2,464
2019	5,463	273	762	6,498
2020	4,931	247	543	5,721
			TOTAL DUE	<u>\$14,683</u>

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 _____ 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.
