#### **BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO**

In the Matter of the Protest of				
		Petitior	ners.	)
				) _)

DOCKET NO. 1-409-344-512

DECISION

Determination (Notice) dated February 26, 2024, issued by the Income Tax Audit Bureau (Bureau). Petitioners disagreed with all the Bureau's adjustments, including 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 and for the reason stated below, upholds the Notice.

## BACKGROUND

Mr. **S**-Corp's return to include Idaho bonus depreciation addition and recapture of Idaho investment tax credit (ITC). The Bureau made flow-through adjustments of these in the Notice issued to Petitioners. The S-Corp did not request an informal hearing, nor did they provide additional information. The Tax Commission's decision on Docket Number 0-782-476-600 affirmed the Bureau's adjustments to the S-Corp. The S-Corp filed an affected business entity (ABE)<sup>1</sup> return for tax year 2021. Because of the Bureau's adjustments to the S-Corp, the amount of the ABE tax has changed. The Bureau adjusted the amount of credit for the ABE tax paid on Petitioners' behalf in Petitioners' Notice.

<sup>&</sup>lt;sup>1</sup> Idaho Code section 63-3026B

The Bureau also disallowed the section 179 expense deduction<sup>2</sup> Petitioners claimed on their Schedule E, federal Form 1040. Although Petitioners claimed the section 179 expense deduction as a pass-through item from the S-Corp, the Bureau found that no such expense deduction had been reported by the S-Corp.

In response to the Notice, Petitioners' representative indicated that the Notice did not accurately reflect the flow-through adjustments, and he wishes to provide additional information. When the Bureau did not receive any information from the representative, they 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 but did not provide additional information nor did they request an informal hearing. Having reviewed the matter, the Tax Commission hereby issues its final decision.

#### LAW AND ANALYSIS

Idaho Code section 63-3026B(1) defines "Affected business entity" as "any partnership or S corporation that elects to be subject to tax pursuant to this section." Subsection (6) of this section provides, "each partnership and S corporation shall report to each of its members, for each taxable year, such member's pro rata share of the tax imposed under this section on such partnership or S corporation if it is an affected business entity."

 $<sup>^2</sup>$  Internal Revenue Code (IRC) section 179 Election to expense certain depreciable business assets. (a)Treatment as expenses. A taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the section 179 property is placed in service.

of the S-Corp's tax attributes flow-through to Petitioners at the percentage of their distributive share. As a result, any changes to the S-Corp return requires a change to the shareholder's return.

### **CONCLUSION**

The Tax Commission upheld the Bureau's flow-through adjustments at the S-Corp level in its decision on Docket No. 0-872-476-600. Therefore, the adjustments to Petitioners' individual return must be made.

The Tax Commission finds that the Bureau's disallowance of the section 179 expense deduction and the adjustment to the ABE tax are appropriate. The Bureau added interest and penalties to Petitioners' Idaho tax due. The Tax Commission reviewed those additions and found them in accordance with Idaho Code sections 63-3045 and 63-3046.

THEREFORE, the Tax Commission AFFIRMS the Notice dated February 26, 2024, directed to Petitioners.

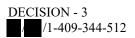
IT IS ORDERED that Petitioners pay the following tax, penalty, and interest:

YEAR	TAX	PENALTY	<b>INTEREST</b>	TOTAL
2021	\$11,375	\$116	\$1,087	\$12,578

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:

Receipt No.

